

Stakeholder Comments Template

**Flexible Resource Adequacy Criteria and Must-Offer Obligation  
Revised Straw Proposal, June 13, 2013**

Submitted by	Company	Date Submitted
Tony Zimmer <a href="mailto:tony.zimmer@ncpa.com">tony.zimmer@ncpa.com</a> 916-781-4229	Northern California Power Agency ("NCPA")	June 26, 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 revised straw proposal on June 13, 2013, and issues discussed during the stakeholder meeting on June 19, 2013.

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 [fcp@caiso.com](mailto:fcp@caiso.com) no later than the close of business on June 26, 2013.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LSE SC based one possible measurement of the proportion of the system flexible capacity requirement to each LSE SC based on its contribution to the ISO's largest 3 hour net-load ramp change each month. Please provide comment regarding the equity and efficiency of the ISO proposed allocation. Please provide specific allocation formulas when possible. The ISO will give greater consideration to specific allocation proposals than conceptual/theoretical ones. Also please provide information regarding any data the ISO would need to collect to utilize a proposed allocation methodology. Specifically,
  - a. Has the ISO identified the core components for allocation? Are more needed? If so, what additional components should be considered and how should ISO consider them? Are fewer needed? If so, what should the ISO include?

Northern California Power Agency ("NCPA") believes the CAISO's proposal to allocate flexible capacity requirements to LSEs based on their contribution to the CAISO's largest three (3) hour net-load ramp is an equitable and efficient method, and the core components identified by the

CAISO in its proposal appropriately capture the key factors that contribute to the net load change CAISO is working to manage.

LSEs have chosen to comply with the state's Renewable Portfolio Standard ("RPS") in different ways, and some of those ways increase the overall need for flexible capacity in the CAISO control area. NCPA has predominately invested in baseload renewables, including, but not limited to, geothermal generation, landfill gas generation and small hydro generation, and has further invested in certain firming contracts for more intermittent renewables. This was a deliberate choice made by NCPA because NCPA is responsible for balancing its loads and resources (managing its own variability and uncertainty) pursuant to its Load Following Metered Subsystem agreement with the CAISO. Other LSEs have relied more heavily on intermittent resources (predominately wind and solar), placing much greater flexibility demands on the grid, and on the resource capacity needed to balance them. Under the principles of cost causation, NCPA should not be penalized for its significant investments to minimize its own impact on grid variability by the imposition of cost shares caused by other entities that made different investment decisions.

- b. Has the ISO used the right allocation factors for the identified components (i.e. load ratio share, percent of total capacity contracted)? If additional or fewer components should be considered as identified in 1a, above, please provide specific allocations factors for these components.

NCPA believes that the allocation factors proposed to be used for the Solar PV, Solar Thermal and Wind Output components are appropriate, and will properly identify each LSE's contribution towards the largest three (3) hour net-load ramp. NCPA believes that the allocation factors CAISO has proposed for Load and Distributed Energy Resources ("DG") should be revised.

The CAISO is proposing to allocate the total change in load to each LSE based on its peak load ratio share. A LSE's peak load ratio share is likely not representative of its contribution to the CAISO coincident maximum three (3) hour ramp used to determine the flexible capacity requirements each month. For example, some LSEs have a very flat load profile due to customer mix or geographic location, while other LSEs may have a more variable or irregular load profile. To be consistent with cost causation, LSEs should only be allocated a flexible capacity requirement based on their individual contribution to the total change in load at the time the total change in load is measured. The total change in load should be allocated based on a LSE's pro rata coincident share of the total change in load

during the three (3) hour period used to set the requirement. This will ensure that the total change in load component is allocated in a manner that is consistent with the other contributing factors. Regarding CAISO's source of data, as part of the annual process used to establish the flexible capacity requirement, CAISO can request that each LSE provide prospective load forecast information to be used by CAISO for allocation purposes (similar to the local capacity allocation process or CRR process). As an alternative, CAISO could use historical load or load distribution factors to allocate the coincident forecast CAISO is using to calculate net load to individual LSEs.

The CAISO is also proposing to allocate the total change in DG output based on each LSE's peak load ratio share. This again does not properly represent a LSE's contribution to total change in DG output in the period of time measured. Just as CAISO uses LSE specific information to allocate Wind Output, Solar PV and Solar Thermal, CAISO should allocate the total change in DG output to each LSE based on its individual portfolio contribution to the total change in DG output. This information should already be available to CAISO as part of the DG deliverability initiative, where NCPA and other LSEs provided information to CAISO regarding the DG located within its members' distribution systems. NCPA's concern with the current proposal stems from the fact that some of NCPA's members have little or no DG on their distribution systems; therefore it would not be equitable if they were forced to carry a share of the burden associated with the total change in DG component that is not consistent with the amount of DG they actually have.

As a side note, in response to comments made by other stakeholders during the June 19<sup>th</sup> stakeholder meeting suggesting that CAISO's proposed allocation method is "too complex", there are many elements of the CAISO markets that are much more complicated. Development of a proper cost allocation method is vitally important to ensure that ratepayers of different LSEs are not unfairly burdened by the procurement decisions of others.

- c. Does your organization have any additional comments or recommendations regarding the allocation of flexible capacity requirements?

While NCPA believes that CAISO's current proposal is much better aligned with the principles of cost causation than the previous proposal, NCPA still believes the current proposal does not properly recognize NCPA's unique situation as a Load Following Metered Subsystem. As previously explained, NCPA is contractually obligated to balance its

integrated portfolio of supply and demand in real-time through the use of Load Following Capacity, to ensure that its net portfolio deviations (whether such deviations are attributed to supply or demand) are kept within a tight deviation band. If NCPA is unable to balance its supply and demand portfolio in real-time, NCPA is assessed significant Load Following Deviation Penalties in accordance with the CAISO Tariff. In order for NCPA to follow its load, it must plan for and reserve capacity on its generation resources, or from other sources, that can be dispatched by NCPA in real-time to manage its portfolio balance during every 10 minute interval. NCPA reserves both Load Following Up and Load Following Down Capacity to effectively regulate its portfolio in real-time to respond to its net load requirements. For example, if NCPA's load were to positively or negatively deviate in real-time, NCPA is contractually obligated to maintain capacity to generate more or less energy during the same interval to balance its portfolio. On the other hand, if a resource that is part of the Load Following Metered Subsystem portfolio unexpectedly deviates in real-time, NCPA is obligated to manage such deviations in accordance with its NCPA Metered Subsystem Aggregator Agreement ("MSSAA").

Since NCPA is uniquely situated as a Load Following Metered Subsystem, and is contractually obligated to acquire sufficient capacity and energy to serve its demand up to and through real-time, and NCPA's failure to do so will result in significant Load Following Deviation Penalties, NCPA strongly believes that a Load Following Metered Subsystem market participant should not receive an allocation of flexible capacity requirements for the load and generation scheduled as part of the Load Following Metered Subsystem. This is strongly correlated with and supported by the principle of cost causation, in that CAISO's flexible capacity need is reduced by, or does not need to account for, NCPA's Load Following Metered Subsystem net load because NCPA is contractually required to self-manage its Load Following Metered Subsystem net load requirement.

2. The ISO believes that there are either tools in place or under development to manage a resource's use-limitations while still be subject to economic bid must offer obligation. The ISO, consistent with the CPUC's RA proposed decision, will require hydro resources to be able to provide a minimum of 6 hours of energy at Pmax to be eligible to provide flexible capacity. However, some resources, including demand response and storage resources may have use limitations that may do not fit well within these mechanisms.
  - a. Please provide comments regarding what use-limitations are currently managed by existing or proposed ISO tools and what must-offer obligation should apply to these resources.

NCPA supports establishing counting rules that enable the counting of hydroelectric resources as flexible capacity. In fact, hydroelectric resources tend to be the most flexible resources and are well suited to the management of the variability and uncertainty associated with net load requirements. As discussed throughout this stakeholder process, hydroelectric resources generally have use limitations that are driven by environmental and other water management requirements. NCPA is somewhat unclear regarding CAISO's current proposal to manage the use limited nature of hydroelectric resources; therefore the comments provided below may be consistent with what is currently being proposed, but if not NCPA believes the following treatment should be applied to the counting of hydroelectric resources as flexible capacity.

If the physical storage (watershed and reservoir capacity) and installed generation capacity for the hydroelectric resource is capable of providing energy equivalent to output at Pmax for six (6) hours the resource shall be eligible to qualify as flexible capacity up to its registered Pmax MW value; provided, however, the amount of capacity that may be claimed by a LSE as flexible capacity each month, and which is required to be Bid into the CAISO, may be less than Pmax and shall be based on the actual capability of the plant at the time based on current hydrology conditions and other use limitations. For example, a hydroelectric resource with a Pmax of 100 MW may be registered as being eligible to provide 100 MW of flexible capacity if the physical storage and installed generation capacity is capable of providing energy equivalent to output at Pmax for six (6) hours, but during any monthly reporting period the actual amount of flexible capacity claimed from the facility may be equal to or less than 100 MW based on current hydrology conditions and other use limitations.

- b. Should the ISO consider other minimum energy or run time limits for other types of use limited resources to be eligible to provide flexible capacity? If so, what should these limits be? Why?

No comment at this time.

3. The ISO is assessing how bid validation rules could work for flexible capacity resources that are subject to an economic bid must offer obligation. The ISO provided two examples of bid validation rules and potential interpretations. Please provide comments regarding how the ISO should address each of these examples and any others that may need to be considered.

No comment at this time.



4. The ISO currently has a tool in place that allows for a resource to include the opportunity costs associated with run-limitations into the default energy bid. The ISO is considering a similar mechanism to allow resources with annual or monthly start limitations to include the opportunity costs of start-up in the resource's start-up and minimum load costs. Please provide comments on how the ISO should consider the opportunity costs for start limitations and how that opportunity cost should be calculated.

No comment at this time.

5. The ISO is proposing that all flexible capacity resources should be required to submit economic bids between 5:00 am and 10:00 pm. Please provide comments regarding this proposed must-offer obligation. Please connect to the response to this question to any responses to questions **Error! Reference source not found.**5 or 6 as appropriate.

As explained in NCPA's response to question 1.c, NCPA operates in the CAISO as a Load Following Metered Subsystem. NCPA is contractually obligated to balance its portfolio of demand and supply in real-time, and if it fails to do so, it is subject to significant deviation penalties. In order to perform Load Following, NCPA reserves capacity from its resources as Load Following Up and Load Following Down Capacity (explicitly included as part of NCPA's Bids to CAISO). This capacity is effectively reserved by NCPA to be used by NCPA in real-time to follow its portfolio deviations. NCPA's ability to reserve Load Following Up and Load Following Down Capacity for its own use is a necessary requirement and is already reflected in the CAISO Tariff. The current CAISO Tariff Section 40 explicitly exempts the system and local capacity used by a Load Following Metered Subsystem for resource adequacy compliance from the Must Offer Obligation. NCPA strongly believes that this treatment should also be applied to the extended Must Offer provisions being proposed by the CAISO for flexible capacity. Since NCPA is already required to balance its supply and demand in real-time, and has a contractual obligation and financial incentive to do so, the flexible capacity that is used by a Load Following Metered Subsystem to meet its assigned requirement, if any, must continue to be exempted from the must Bid requirement; otherwise NCPA will be unable to perform its Load Following obligations because the capacity it would otherwise use to balance its supply and demand in real-time will be committed to CAISO and not be available for NCPA dispatch. Unlike other market participants who are required to commit capacity to CAISO through the submission of a Bid, NCPA actively uses its Load Following capacity in real-time to self manage its net load requirements, and any Bid obligations that would limit NCPA's own use of its capacity would inhibit its ability to perform Load Following and would be inconsistent with its MSSAA. As previously stated, this rule is already incorporated in the CAISO Tariff and should not be modified as part of this initiative.

6. The ISO has proposed to include backstop procurement provision that would allow the ISO to procure flexible capacity resources to cure deficiencies in LSE SC flexible capacity showings. Please provide comments regarding the ISO's flexible capacity backstop procurement proposal.

No comment at this time.

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

No additional comments at this time.