

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 fcp@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 2104. Please provide any general comments/questions/clarifications regarding the needs assessment.

After reviewing Section 3.2 of the Resource Adequacy and Flexible Capacity Procurement Joint Parties' Proposal dated October 29, 2012 ("Joint Parties' Proposal") Northern California Power Agency ("NCPA") is still unclear why the Joint Parties are proposing to increase the "flexibility need" to account for

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>.

contingency reserves as part of the Flexibility Need determination equation³. As explained by the Joint Parties, contingency reserves are used by CAISO to respond to the most severe single contingency in the system, and to support system reliability in the event of a forced outage. On the other hand, flexible capacity will be used to manage normal operating conditions, such as ramping and system variability.

Contingency reserves are currently procured by the CAISO using a specific formula, which is based on the greater of the most severe single contingency or a percentage of demand. Contingency reserves are procured in both the Day-Ahead and Real-Time market based on current system conditions. The Joint Parties are proposing to include, as part of the flexible capacity procurement obligation, an additional contingency reserve requirement that will be based on year ahead and/or month ahead forecasts and assumptions.

NCPA agrees that CAISO should have access to sufficient contingency reserves so that it is able to respond to contingency events and maintain reliability, but NCPA does not fully understand why the Joint Parties are proposing to mix flexible capacity procurement with contingency reserve procurement, when the capacity is used for different purposes. If the Joint Parties believe that additional contingency reserves are needed, would it not be more efficient for CAISO to simply procure more contingency reserves through its current market mechanisms? By procuring additional contingency reserves through its existing procurement process, CAISO will be able to procure contingency reserves based on current system needs, rather than based on what need is forecasted a month or year in advance. Not only would this seem to result in more efficient procurement, this procurement strategy will set contingency reserve prices based on actual needs.

NCPA requests that CAISO provide more information in its next proposal explaining why this alternative, where CAISO could simply increase the amount of contingency reserves procured through existing market mechanisms, was not considered. Or if such was considered by the Joint Parties, why did the Joint Parties elected not to include this option as part of the Joint Parties Proposal.

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?

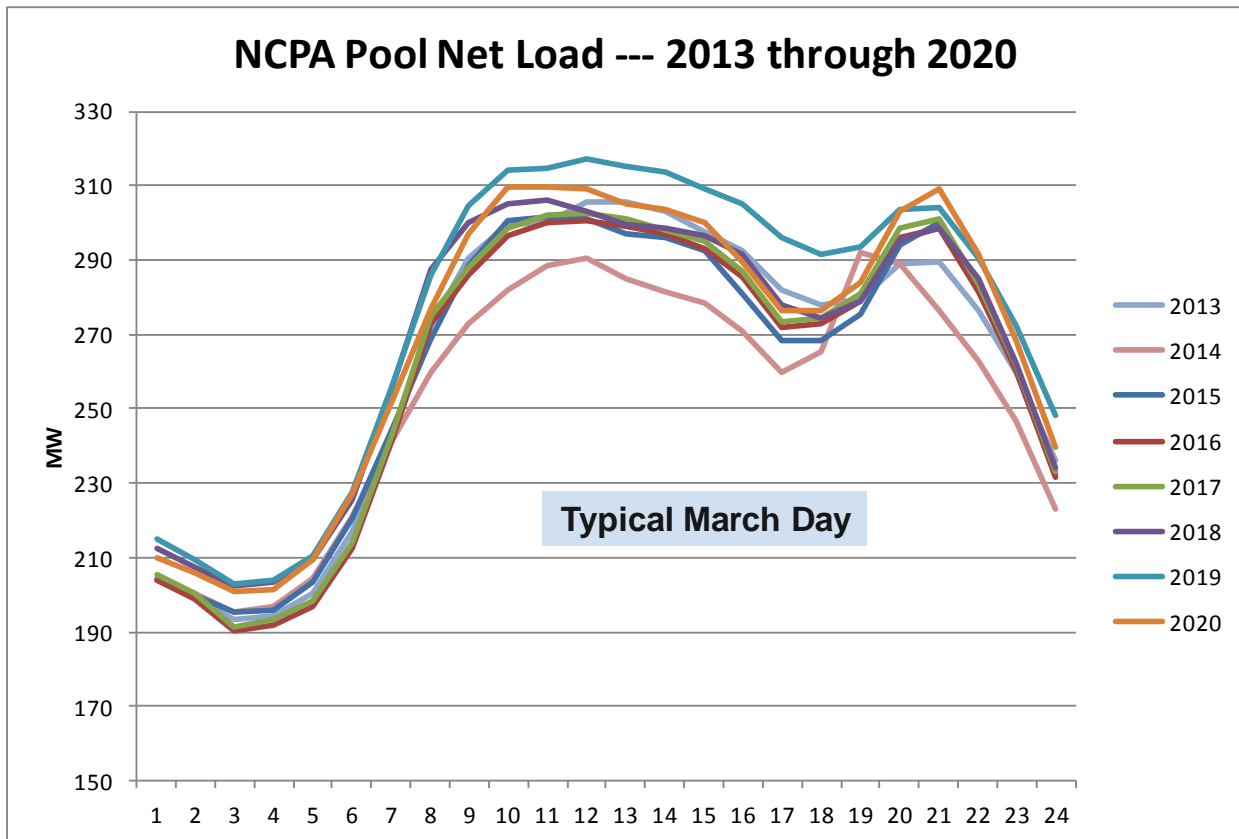
The Joint Parties Proposal describes three alternative methods of allocating the flexible capacity procurement obligation – by a LSE’s contribution to forecasted

³ Page 7 of Joint Parties’ Proposal

monthly system peak demand, by a LSE's relative monthly load factors, or by a combination of a LSE's load and resource characteristics. The Joint Parties Proposal itself recognizes that the latter two alternatives are more in line with cost causation principles, but it nonetheless proposes spreading costs to load based on a LSE's contribution to forecasted monthly system peak demand because it is a less complicated methodology. While NCPA appreciates the Joint Parties' desire to minimize implementation costs and complexity, the allocation methodology must still reflect cost causation principles. This proposal does not.

The flexible need CAISO is working to manage is primarily driven by LSE procurement decisions. LSE procurement and interconnection of intermittent resources, without also planning for and managing the variability associated with such procurement decisions, directly impacts and is the root cause of CAISO's need to maintain flexible capacity. Therefore, NCPA strongly believes that the flexible capacity procurement obligation should be allocated based on a LSE's load and resource characteristics. Allocating flexible capacity procurement obligations to LSEs based on how their resource portfolio contributes to CAISO's flexible need is more consistent with cost causation principles. For example, through its planning process NCPA has developed a resource portfolio that includes a mixture of conventional and renewable generation technologies that do not result in the type of variability and uncertainty reflected in CAISO's "sea horse" graph, included as Figure 1 in CAISO proposal. NCPA's forecasted net load through calendar year 2020 is much less variable than what CAISO is forecasting on a system wide basis because NCPA has procured capacity and energy from a mixture of resources that are less variable. NCPA's renewable resource portfolio mainly consists of geothermal, hydroelectric and landfill gas generation which is much less variable than other types of renewable generation. To demonstrate this, the following graph represents the NCPA Pool's⁴ net load profile during the period of 2013 through 2020, where net load is equal to gross load less solar and wind generation:

⁴ The NCPA Pool includes Alameda Municipal Power, City of Biggs, City of Gridley, City of Healdsburg, City of Lodi, City of Lompoc, City of Palo Alto, Plumas Sierra REC, Port of Oakland and City of Ukiah



As you can see in the graph above, the NCPA Pool’s net load is not a “sea horse”; rather the NCPA Pool’s net load is representative of a traditional load shape. This is the case because NCPA has made resource procurement decisions to minimize the impact its renewable portfolio has on the system. Also, many of the NCPA Pool members have already procured sufficient renewable resources to satisfy their renewable procurement obligations; hence the level of variability and uncertainty associated with NCPA’s portfolio does not increase over time, unlike CAISO’s system wide projections. Why should NCPA be required to carry a load ratio share of the flexible capacity procurement obligation when the above graph clearly shows that NCPA is not contributing the CAISO’s “sea horse” problem?

In addition to the fact that NCPA’s resource portfolio is not driving CAISO’s need; the proposal is particularly at odds with cost causation principles when applied to NCPA for the following reason. NCPA, unlike any other entity in the CAISO, operates as a Load Following Metered Subsystem (“LF MSS”). 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 its net portfolio deviations (whether such deviations are attributed to supply or demand) are contained 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 successfully 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 over time. NCPA reserves both Load Following Up Capacity and Load Following Down Capacity to effectively regulate its portfolio in real-time to respond to its net load requirements. Because NCPA already self-manages the uncertainty and variability associated with its portfolio, by using its reserved flexible capacity, NCPA does not contribute to the system-wide flexible capacity need; therefore CAISO's collective need is reduced.

As explained by CAISO in its straw proposal, CAISO is proposing to implement the flexible capacity procurement obligation to ensure sufficient capacity is made available to CAISO to manage changes to net load in the system, as additional intermittent generation interconnects to the CAISO BAA. CAISO's proposed allocation method is not appropriate for NCPA because 1) as shown in the graph above, NCPA's portfolio is not driving CAISO's need, and more importantly 2) NCPA is already contractually required to use its Load Following Capacity to self-manage its net load requirements. Once NCPA reserves Load Following Capacity on its generating facilities or other resources, the reserved capacity is used by NCPA to manage changes in its net load, as required, up to and through real-time. Allocating a flexible capacity procurement obligation to NCPA, or any CAISO flexible capacity backstop procurement costs, is not consistent with cost causation principles.

Since NCPA is already 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 LF MSS market participants should be exempt from flexible capacity procurement obligations. This is strongly correlated 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 net load because NCPA is contractually required to self-manage its net load requirement. This treatment is consistent with how other resource adequacy based requirements account for MSS LF entities.

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?

No comment at this time.

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?

No comment at this time.

5. The ISO is proposing new backstop authority if 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?

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?

No comment at this time.

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.

Please see NCPA's response to question 2.

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

While NCPA supports CAISO's objective to minimize the total cost of flexible backstop procurement, NCPA requests CAISO to clarify criteria 1 in Section 8.1 (Selection Criteria for Flexible Capacity Procurement Mechanism). Specifically, the proposal seems to imply that a LSE which has procured system capacity from a generator may unilaterally commit the flexible capacity available from the resource to CAISO, and in turn receive payment for such, without approval from the generator prior to such commitment. The proposal states the following:

However, unlike CPM, the resource under criteria 1 is already been procured for its generic capacity. Thus, an LSE willing to except the additional flexible capacity obligation as part of its RA plan should receive the compensation for the designation.

If a generator only sells system capacity to a LSE, the LSE should not be able to commit flexible capacity from the unit to CAISO without explicit approval of the generator. How will the CAISO ensure that the LSE can or cannot effectively

commit the generator as flexible capacity under the proposed backstop mechanism, or is the CAISO assuming that the generator providing the capacity is owned by the LSE, or that the generator owner has agreed to such commitment? Please clarify in the next proposal.

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?

NCPA supports PG&E's alternative proposal, based on NCPA's current understanding of the proposal.

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?

No comment at this time.

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

No comment at this time.

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.

No comment at this time.