Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Straw Proposal, July 25, 2013

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 revised straw proposal on July 25, 2013, and issues discussed during the stakeholder meeting on August 1, 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 no later than the close of business on August 15, 2013.

1. The ISO has proposed a process by which an annual flexible capacity requirement assessment would be conducted. Please provide any comments or questions your organization has regarding this proposed process.

   NCPA believes that all Local Regulatory Authorities (LRA), including the POU LRAs, should be formally included in the assessment process, on par with the CPUC and CEC.

2. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. It is based on one possible measurement of the proportion of the system flexible capacity requirement to each LRA and calculated as the cumulative contribution of the LRA's jurisdictional LSE's contribution to the ISO's largest 3-hour net load ramp each month. Please provide comments regarding the equity and efficiency of the ISO proposed allocation. Please provide specific alternative 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,

General Comments: NCPA supports CAISO's overall approach to allocating responsibility for flexible capacity as consistent with the principles of cost causation. NCPA disagrees with commenters, particularly the CPUC, claiming that flexible capacity should be allocated similarly to local capacity responsibility, or that the CAISO's proposed methodology in any way violates California's environmental mandates.[1]

The methodology for flexible capacity allocation should reflect the choices made by LSEs to comply with the state's environmental mandates. California's governmentally-owned utilities are not exempt from the state's Renewable Portfolio Standard, and they have invested heavily in renewable resources, as have CPUC-jurisdictional entities. Indeed, they often did so well before the RPS standard was imposed. NCPA, for example, has invested in both base load renewable resources (such as geothermal plants) which do not impose significant variability on the grid, and in dispatchable renewable resources (such as small hydro, landfill gas plants, and firmed wind and solar), which can and do contribute flexible capacity to the grid.

The fact that the RPS standards apply to all LSEs does not mean that the costs of complying with the RPS should be spread to all LSEs in peanut butter fashion. The fact is that individual LSEs (based on their own decisions or mandated by their LRAs) have made different investment choices in how to meet those mandates. Some LSEs have invested heavily in unfirmed intermittent resources, such as solar and wind, that impose more variability on the grid. Others have invested in base load or dispatchable renewables that minimize the variability they impose on the grid. Still others have invested in a mixture of intermittent and base load (or dispatchable) renewables. LSEs that invested in renewable resources with lower variability should not now be punished by bearing higher costs to pay for intermittent resources acquired by others.

Moreover, if LRAs are to retain a meaningful ability to prescribe resource choices for their jurisdictional LSEs in the future, they cannot rely on shifting the costs associated with those choices to others. If everyone has to pay for everything, LRA choices or directives become meaningless.

The allocation methodology for Local RA is different, because it is designed to be fair to all LSEs and their ratepayers with reference to choices that were made decades ago. Prior to deregulation, the grid was designed to serve loads at the least cost to all. That often meant locating generation in sparsely populated areas, and serving distant cities using long transmission lines. Restructuring upset that design by threatening to impose different cost consequences on ratepayers depending on where they lived. The need to acquire Local RA stems from the fact that the historical grid design created both load and generation pockets, and sometimes makes it necessary to acquire generation in specific

[1] See CPUC comments of July 2, 2013.

areas for reliability purposes. Allocating Local RA costs to all load recognizes that no ratepayer had effective choice in overall system design in an earlier era, and that certain groups of ratepayers (both IOU and governmentally-owned) should not bear disproportionate costs based on their place of residence or business, just because the rules had changed.

The RPS requirements, by contrast, are of much more recent vintage, as are the decisions of the LRAs that dictated renewable resource acquisition. Like the CPUC-jurisdictional LSEs, government-owned LSEs make investments in renewables that took into account their obligations. Because of the design of its contractual relationship with the CAISO, NCPA specifically took variability and load following capability into account when planning resource acquisition. In short, all LSEs have recently had the opportunity to make investment decisions based on the new environmental laws, and did so. LSEs that made investments to meet those standards and to do so in a way that does not worsen grid variability (and to contribute flexibility when needed) should not have to bear the costs of others that made different decisions. Fundamentally, LSE's should be responsible for the costs their own loads and resources may impose on the grid, and receive payment for the flexible characteristics that their loads and resources may contribute to the grid. This basic equity requires examination of individual load characteristics and resource portfolios.

a. Over the course of a day or month, any of the identified contributors to the change in the net load curve may be positive or negative. How should the ISO account for the overall variability of a contributor over the month (i.e. how to account for the fact that some resources reduce the net load ramp at one time, but increase it at others)?

   No comment at this time.

b. What measurement or allocation factor should the ISO use to determine an LRA's contribution to the change in load component of the flexible capacity requirement?

   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 proportional 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. To do otherwise risks over- or under-allocating the total amount of flexible capacity requirement.

Regarding CAISO's source of data, CAISO could request that each LSE provide prospective load forecast information to be used by CAISO for allocation purposes as part of the annual process used to establish the flexible capacity requirement (similar to the local capacity allocation process or CRR process). Alternatively, CAISO could use historical load or load distribution factors to allocate the coincident forecast CAISO is using to calculate net load to individual LSEs.

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

No comment at this time.

3. The ISO has proposed must-offer obligations for various types of resources. Please provide comments and recommendations regarding the ISO's proposed must-offer obligations for the following resources types:

    a. Resources not identified as use-limited

    No comment at this time.

    b. Use-limited resources

        1. Please provide specific comments regarding the ISO's four step proposal that would allow resources with start limitations to include the opportunity costs in the resource's start-up cost.

        No comment at this time.

        2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

        No comment at this time.

    c. Hydro Resources

    NCPA supports the hydro-specific rules proposed by CAISO, where such rules reflect the particular needs of hydro resources and the reality that hydro resources constitute a significant portion of the fleet flexibility.

d. Specialized must-offer obligations (please also include any recommended changes for the duration or timing of the proposed must-offer obligation):

    1. Demand response resources

    2. Storage resources

    3. Variable energy resources

4. The ISO has proposed to include a 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.

5. The ISO is not proposing to use bid validation rules to enforce must-offer obligations. Instead, the ISO is proposing a flexible capacity availability incentive mechanism. Please provide comments on the following aspects of the flexible capacity availability incentive mechanism:

   No comment at this time.

   a. The proposed evaluation mechanism/formula

      1. The formula used to calculate compliance

      2. How to account for the potential interaction between the flexible capacity availability incentive mechanism and the existing availability incentive mechanism (Standard Capacity Product)

   b. The use of a monthly target flexible capacity availability value

      1. Is the 2.5% dead band appropriate?

      2. Is the prevailing flexible capacity backstop price the appropriate charge for those resource that fall below 2.5% of monthly target flexible capacity availability value? If not, what is the appropriate charge? Why?

c. Please also include comments regarding issues the ISO must consider as part of the evaluation mechanism that are not discussed in this proposal.

6. Are there any additional comments your organization wishes to make at this time?

   No additional comments at this time.