NRG Energy, Inc. Comments on
Flexible Ramping Product Third Revised Straw Proposal

Submitted By	Company	Date
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NRG submits these comments in response to the CAISO's March 7, 2012[1] Flexible Ramping Products ("FRP") Third Revised Straw Proposal ("3RSP").

While NRG appreciates the CAISO's efforts to explore new products, NRG continues to disagree about the proposed FRP, which it views as a complicated and somewhat arbitrary attempt to avoid procuring the additional flexibility required through the existing ancillary service markets. NRG's comments on specific aspects of the FRP follow.

Split Procurement between Day-Ahead (DA) and Real-Time (RT). As the CAISO proposes, FRP would be the only CAISO ancillary service for which CAISO is not committed to procuring 100% of its projected needs in the DA Integrated Forward Market ("IFM"). The CAISO has proposed to procure FRP up to a 60 percent confidence level in the DA IFM and the remaining amount, up to a 95 percent confidence level, in the Real-Time Dispatch (RTD) run (3RSP at 9). NRG does not understand or agree with the CAISO's rationale for not proposing to treat FRP as it treats all other ancillary service products and procure its full forecasted requirements in the DA IFM, and procure only incremental amounts of FRP needed due to changes in forecast conditions in the RTD. Given that the procurement of FRP is based primarily on historical factors, it is even less clear to NRG why the CAISO is deferring procurement of FRP to the RT run.

Requirement Relaxation. As NRG understands, the proposal to relax the FRP constraint (3RSP, Section 2.2.2) would allow the CAISO to procure less than the targeted amount of FRP to avoid paying a high price for FRP. This proposal creates the perception that FRP is not a reliability product, but is a product primarily designed to avoid real-time price spikes – a perception furthered by the CAISO's proposal to split the procurement of FRP between the DA and RT markets. If FRP really is a reliability product, and not primarily a real-time price management tool, logic would dictate that the CAISO should be seeking to apply some form of scarcity pricing to FRP that would set a scarcity price for FRP when the CAISO could not procure enough of it, not a program of graduated constraint relaxation to manage FRP price.

No FRP in RTUC. NRG supports the CAISO's proposal to not procure FRPM in RTUC. However, as NRG understands, if energy is dispatched from FRP capacity procured in RTD, the CAISO still proposes to pay only for the energy dispatched from that capacity, and the CAISO will pay a capacity payment for FRP procured in the real-time market only when real-time FRP is held (i.e., energy is not dispatched from the FRP in the real-time market). This proposal effectively creates two kinds of FRP – FRP that is procured in the

[1] This straw proposal was posted on March 7, 2012, but the date on the proposal is March 6, 2011.

DA market, from which a generator is eligible to receive both a capacity payment and a payment for energy dispatched from this capacity, and FRP procured in the RTD, for which a generator in not eligible to receive a capacity payment for FRP capacity from which energy is dispatched. NRG opposes this inconsistent treatment of FRP relative to the other ancillary services. This inconsistent treatment will discourage the CAISO from procuring the full amount of FRP required in the DA market, further differentiating this ancillary service from all other ancillary services.

In sum, the aforementioned inconsistencies in FRP relative to other ancillary services perpetuate the perception that arbitrary price suppression is true goal of the implementation of this product.

No Pay. With regards to the CAISO's proposal for applying no-pay provisions to FRP: the CAISO has proposed that a resource would be subject to no pay if the amount of energy it produced (or consumed) differed from the instructed value of energy by more than 10 percent (3RSP at 28). NRG questions whether a 10 percent tolerance band is the appropriate threshold for applying no-pay. It seems harsh to penalize a resource that is providing the CAISO 90% of the expected energy from the FRP capacity. NRG suggests the CAISO provide some justification as to why such a narrow tolerance band is necessary and also opine on if a more relaxed threshold is appropriate.

The CAISO is seeking input as to whether no-pay provisions should be based on five-minute or ten-minute meter reads (3RSP at 28). NRG would support the use of a ten-minute meter read to assess no-pay to allow additional tolerance.

Real-time re-bid. To allow market participants that have been awarded FRP in the DA IFM to re-submit RT energy bids, the CAISO has proposed to have market participants propose a bid floor and cap for their RT energy bids (3RSP at 14). On initial read, this seems a reasonable proposal to allow market participants flexibility to re-bid but still allows the optimization to account for the potential for higher RT energy bids. The CAISO has proposed that the RT energy bid for a market participant self-providing FRP from a resource would be capped by the minimum of twice the resource's Default Energy Bid or $300/MWh, but would not have a floor applied. (3RSP at 12) NRG requests the CAISO explain why a different price cap and no price floor would apply to a market participant self-providing FRP.