

NRG Energy, Inc. Comments on
January 5, 2012 Flexible Ramping Product Second Revised Straw Proposal

Submitted By	Company	Date
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NRG appreciates the opportunity to submit these comments.

First, as a minor administrative matter, the date on the Second Revised Straw Proposal ("SRSP") - January 5, 2011 – should be January 5, 2012.

NRG offers comments on two aspects of the CAISO's SRSP.

First, as NRG understands, the CAISO is proposing that when it acquires Flexible Ramping Product ("FRP") in the Real-Time Dispatch ("RTPD") process, those "awards" are not financially binding. Instead, only the FRP procured in RTD is financially binding. According to the CAISO, it is proposing this treatment because of concerns expressed by some stakeholders that providing a financially binding award of FRP based on the opportunity cost of not being able to provide energy in real-time amounts to a "double payment", because, unlike with the CAISO's other ancillary services, it is likely that energy *will* be dispatched from capacity held to provide FRP (RSRP at 13).

NRG objects to this proposed treatment. Heretofore, the CAISO has never proposed different treatment for the compensation of its ancillary services capacity based on the expectation of energy being dispatched from that capacity. The CAISO's energy and ancillary markets already provide remarkably little net revenue to contribute towards fixed cost recovery. Eliminating the FRP RTPD capacity payment for the very first product to emerge from the CAISO's move towards new market products to assist with renewable integration completely sends the wrong signal regarding the value of flexible generation in the CAISO markets supporting the "new" grid.

If the energy from FRP is likely to be dispatched in real time, market participants will take that expectation into account in formulating their FRP capacity bids. Competition to provide this service, not inconsistent market design, should drive price formation for this product.

Second, inasmuch as NRG still views FRP as the exact analog to non-contingent spinning reserve, NRG is confused about the CAISO's proposal for allowing day-ahead non-contingent spinning reserve to be converted to FRP in real-time, but not allowing for substitution of the two products in the day-ahead market. NRG would like to see additional discussion regarding the question that SCE raised at the January 12 FRP meeting, namely, does differentiating between contingent and non-contingent spinning reserve on the basis of a market participant's non-price election make the most sense? While NRG supports the exploration of new market products (or enhancement of existing market products) to help provide revenue adequacy to sustain the fleet flexibility needed in an increasingly renewable-focused bulk power supply system, NRG is not yet fully persuaded that the FRP as contemplated is the optimal or necessary product.