

Stakeholder Comments

Submitted by	Company	Date Submitted
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On September 26, 2017, the California Independent System Operator (CAISO) conducted its second Flexible Resource Adequacy Criteria and Must Offer Obligation (FRACMOO2) working group meeting, and invited comments on the meeting and associated CAISO presentation (Presentation). The working group meeting and Presentation followed the CAISO’s May 1, 2017 FRACMOO2 Revised Straw Proposal and stakeholder comments and a previous working group conducted on August 2, 2017. Following receipt of comments from stakeholders on the September 26 working group meeting and Presentation, the CAISO proposes to draft a FRACMOO2 Second Revised Proposal by early November 2017. The CAISO Presentation recommends the creation of four new types of Resource Adequacy (RA) obligations applicable to all load serving entities (LSEs) in order to address flexible capacity needs.¹

The Office of Ratepayer Advocates’ (ORA) recommends that prior to creating the four new types of RA products, the CAISO provide additional analysis of the reliability concerns the products are intended to address, along with the various options to address those concerns. ORA also recommends that the CAISO allow continued stakeholder involvement prior to drafting a new revised proposal.

Comments:

A. New Flexible Capacity Products Need Further Review and Analysis

The CAISO Presentation proposes four new categories of flexible capacity obligations for LSEs.² This recommendation represents a substantial change in position from the CAISO’s May

¹ Presentation, p. 47. The proposed four new categories of flexible capacity obligations include: Day-ahead ramping range capacity, 15 minute dispatchable flexible capacity, 5 minute dispatchable flexible capacity, and Regulation certified capacity.

² Id.

1, 2017 Revised Straw Proposal.³ The Presentation does not explain the development and basis for the new recommendation, and provides little explanation as to how the four new categories of flexible capacity obligations will be implemented and what type of must offer obligations (MOOs) will be necessary. At the working group meeting, the CAISO admitted that much work remains prior finalizing the final product definitions, and acknowledged that it could not comment on the impact the proposal will have on the LSEs' ability to contract for the various flexible capacity products. There are many unanswered questions related to the feasibility of implementing strict obligations that would double the capacity products that LSEs must procure.⁴ Furthermore, the actual need for the new flexible capacity obligations and the potential cost to ratepayers has not been established. The proposed products should be developed with the full participation of the California Public Utilities Commission (CPUC) staff and with stakeholder input.

B. The Impacts on the Risk of Retirement Remain Unclear

Prior proposals in the FRACMOO2 initiative as well as the current Presentation emphasize the mitigation of risk of retirement concerns. While the CAISO's proposal for new flexible capacity obligations may direct more contracts to resources that the CAISO desires, this approach to the risk of retirement concern will likely increase ratepayer costs. The CAISO Presentation does not provide data to demonstrate that the proposed flexible capacity obligations will protect needed resources from retiring. ORA previously requested an analysis to quantify the risk of retirement both currently and over time.⁵ In addition, other stakeholders, including the investor-owned utilities (IOUs), requested data describing the current fleet's ability to meet operational needs. The requested analysis and data has yet to be provided to stakeholders.

C. Further Analysis Should Support New Flexible Capacity Products

The working group meeting included a discussion of the CAISO's concerns with the current market structure and the problems between the day-ahead market forecasts and real-time demand. The CAISO responded to stakeholder questions about changing its market structure by stating that market changes would require a stakeholder initiative process and tariff changes. During the last FRACMOO2 working group meeting on August 2, the CAISO explained that it hired the Brattle Group to assist the CAISO in its examination of grid reliability

³ The May 1, 2017 Revised Proposal called for restricting flexible capacity eligibility for long-start and long-run resources, but did not propose to create any new flexible capacity product obligations for LSEs.

⁴ Current flexible capacity rules only require one flexible capacity product in addition to system and local capacity for a total of three capacity obligations for LSEs. Increasing from one to four flexible capacity products will result in LSE requirements expanding to six capacity obligations for LSEs to meet.

⁵ ORA Comments on the FRACMOO2 Revised Straw Proposal, May 22, 2017, p. 5.

options and market based approaches.⁶ To date, the Brattle Group has not submitted any reports or analysis to stakeholders, yet the CAISO now proposes to create flexible capacity products in advance of providing the Brattle Group's market design input to stakeholders. The must offer obligations associated with the new proposed products will likely be extremely restrictive in order for resources to produce the desired market effects. Rather than limiting potential changes to the RA markets, ORA suggests that the CAISO consider potential changes to the energy markets to encourage resources to behave in the desired manner. The CAISO should seek the best approach, not necessarily the most expedient.

Conclusion:

In summary, ORA recommends that the CAISO provide stakeholders with comprehensive analysis and data supporting the need for the proposed new flexibility capacity obligations prior to issuing a revised proposal for the FRACMOO2 initiative. The CAISO should then seek stakeholder comments on the analysis and justification, through workshops and written comments. Finally, , consistent with ORA's prior comments,⁷ ORA recommends coordinating the CAISO FRACMOO2 initiative with the ongoing review of the CPUC's RA program in the CPUC's recent RA Order Instituting Rulemaking, R.17-09-020. This Rulemaking⁸ calls for stakeholder ideas to consider modifications to the RA program to meet future grid challenges. The CAISO's FRACMOO2 initiative should be combined with the CPUC RA proceeding and its efforts to develop and administer a cost-effective and efficient RA program.

⁶ Proposed Framework for CAISO Flexible Capacity Procurement, Brattle Group, August 2, 2017, p. 2.

⁷ ORA Comments on the FRACMOO2 Revised Straw Proposal, May 22, 2017, p. 4.

⁸ Rulemaking 17-09-020, California Public Utilities Commission, October 4, 2017.