Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Revised Straw Proposal, June 13, 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 June 13, 2013, and issues discussed during the stakeholder meeting on June 19, 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 June 26, 2013.

1. The ISO has outlined the a methodology to allocate flexible capacity requirements to LSE SC based one possible measurement of the proportion of the system flexible capacity requirement to each LSE SC based on its contribution to the ISO's largest 3 hour net-load ramp change each month. Please provide comment regarding the equity and efficiency of the ISO proposed allocation. Please provide specific 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,

    a. Has the ISO identified the core components for allocation? Are more needed? If so, what additional components should be considered and how should ISO consider them? Are fewer needed? If so, what should the ISO include?

CAISO has proposed to allocate flexible capacity procurement obligations at the Load Serving Entity (LSE) level. This question assumes that allocation to LSEs as proposed is indeed the optimal approach and asks whether the methodology proposed to effectuate the allocation in the June 13, 2013 Straw Proposal is appropriate. Powerex suggests that the question should be raised a step earlier: is the allocation to LSEs the most appropriate approach? Powerex respectfully notes that the proposed allocation of the obligations and the associated costs at the LSE level is not directly related to cost causation in all instances. While the increase in load that requires flexible capacity to be required is indeed the direct responsibility of the LSE, as it is caused by customers the LSE is obliged to serve, the increase that is caused by variable energy resources is directly attributable to the variable energy resources, whose delivery of output, and corresponding integration costs, may, in many cases, be the appropriate obligation of third parties, not LSEs. If LSEs must bear the burden of the cost caused by such entities, such third parties effectively will receive a subsidy because the true cost associated with that resource's dispatch is higher than the cost attributed to the generation output owner. In Powerex's view, this approach is short-sighted as it will encourage eventual over-saturation in CAISO markets' of resources that increase flexible capacity needs, while distorting price signals because the true costs of the resource are not recognized and attributed to the resource.

As to whether ISO has identified all the core components for allocation, it may have overlooked an important aspect of the issue. ISO states at n.12 that "solar and wind resources that are firmed outside of the ISO balancing area will not be included in the allocation calculation". However, ISO does not directly speak to the flip side: what about California's flexible capacity that is consumed by resources located outside the state, whose obligation to integrate (i.e. "firm"), is the appropriate responsibility of third parties? It is unclear whether ISO has modeled the <u>consumption</u> of flexible capacity at the interties and has considered a means to prevent free riders given that it proposes to charge the LSE for flexible capacity, in all circumstances, rather than charge consistent with cost causation, a flexibility consuming importer or exporter. This very real concern as to free ridership at the interties needs to be considered carefully.

b. Has the ISO used the right allocation factors for the identified components (i.e. load ratio share, percent of total capacity contracted)? If additional or fewer components should be considered as identified in 1a, above, please provide specific allocations factors for these components.

No. The CAISO should allocate the costs to the generation or load customer consistent with cost causation. For variable energy resources whereby the contractual obligation for integration costs within their commercial agreements rests with an LSE, the transfer of flexible capacity integration costs charged by the CAISO to the VER could then be assigned to the LSE. Powerex believes it will distort wholesale energy markets if generators, as well as imports and exports that increase the flexible capacity requirements of the CAISO, are able to "free ride" as a result of costs being allocated to LSEs, inconsistent with cost causation.

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

As indicated previously, ISO states at n.12 of the Straw Proposal that “solar and wind resources that are firmed outside of the ISO balancing area will not be included in the allocation calculation”. ISO should provide more details as to how it is going to determine whether a resource has been firmed out of state including disclosure of the criteria that will be used. Put another way, the CAISO should state how it will determine whether the firming obligation for a resource outside the state is the responsibility of the LSE or the importing party? Will it be based on whether the resource is serving a LSEs RPS obligations? What about circumstances where the LSE has sold the “un-firmed” energy of resource meeting its RPS to a third party outside the state, presumably at a discount to “firmed” energy prices, intending to transfer the firming obligation contractually to the third party? How will the CAISO prevent both resources and loads outside the state from consuming flexible capacity in CAISO markets, leading to insufficient in-state procurement, creating a reliability risk, or to sufficient procurement with the costs for these flexible capacity resources charged to LSEs, inconsistent with cost causation?

2. The ISO believes that there are either tools in place or under development to manage a resource’s use-limitations while still be subject to economic bid must offer obligation. The ISO, consistent with the CPUC’s RA proposed decision, will require hydro resources to be able to provide a minimum of 6 hours of energy at Pmax to be eligible to provide flexible capacity. However, some resources, including demand response and storage resources may have use limitations that may do not fit well within these mechanisms.

    a. Please provide comments regarding what use-limitations are currently managed by existing or proposed ISO tools and what must-offer obligation should apply to these resources.

    b. Should the ISO consider other minimum energy or run time limits for other types of use limited resources to be eligible to provide flexible capacity? If so, what should these limits be? Why?

Parity would dictate that CAISO impose similar requirements on resources that may have use limitations regardless of the genesis of those limitations. CAISO should understand from a reliability perspective that use limited resources may include more resources than traditionally assumed to fall into that category. For example, at the Federal Energy Regulatory Commission, proceedings involving Gas-Electric coordination are ongoing. One of the issues of interest is whether, given limited infrastructure, priorities given to pipeline use for residential heating needs, and other market design considerations, gas-fired generators have access to sufficient natural gas supplies to run as and when called upon in real-time, particularly during peak periods. Reliability events have occurred in light of the growing reliance on natural gas-fired generators that do not necessarily have access to firm gas supplies. It is unseemly to require hydro resources to have sufficient fuel (water) to run for a minimum of 6 hours but not impose a similar requirement on other resources that may experience fuel limitations. Whether water or natural gas is the limited "fuel" should not form the basis for a distinction.

3. The ISO is assessing how bid validation rules could work for flexible capacity resources that are subject to an economic bid must offer obligation. The ISO provided two examples of bid validation rules and potential interpretations. Please provide comments regarding how the ISO should address each of these examples and any others that may need to be considered.

4. The ISO currently has a tool in place that allows for a resource to include the opportunity costs associated with run-limitations into the default energy bid. The ISO is considering a similar mechanism to allow resources with annual or monthly start limitations to include the opportunity costs of start-up in the resource's start-up and minimum load costs. Please provide comments on how the ISO should consider the opportunity costs for start limitations and how that opportunity cost should be calculated.

5. The ISO is proposing that all flexible capacity resources should be required to submit economic bids between 5:00 am and 10:00 pm. Please provide comments regarding this proposed must-offer obligation. Please connect to the response to this question to any responses to questions 5 or 6 as appropriate.

While submitting an economic bid is an important pre-requisite, verifying performance will be key to ensuring that ramping resources are providing the needed reliability service.

6. The ISO has proposed to include 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.

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

Any requirement that flexible resources be dispatchable on a 5 minute basis will effectively exclude resources at the interties from providing flexible capacity to the extent the interties remain subject to 15 minute scheduling. This will result in the inefficient and unnecessary exclusion of resources that could provide valuable ramping capability to the CAISO. Hourly intertie schedules today can provide valuable flexible capacity. Fifteen minute intertie resources will be able to play an even greater role in the provision of valuable flexible capacity commencing in 2014. The CAISO should revise its requirements to more broadly allow intertie resources to participate in meeting flexible capacity requirements, thereby resulting in a lower acquisition cost, and more efficient market outcomes.