

## Powerex Comments on CAISO’s Flexible Resource Adequacy Criteria and Must-Offer Obligation – Fifth Revised Straw Proposal

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Powerex appreciates this opportunity to provide comment on the Fifth Revised Straw Proposal (the “Proposal”) on the CAISO’s Flexible Resource Adequacy Criteria and Must-Offer Obligation (“FRACMOO”). Powerex will focus its comments on three primary points. First, the CAISO should revise its proposal to permit resources at the interties to provide flexible resource adequacy supply. Second, consistent with cost causation principles, CAISO should not dictate that all costs of procuring such resources be assigned to LSEs. Third, CAISO should take steps to avoid free ridership concerns.

### Resources at the Interties Should be Eligible to Provide Flexible Resource Adequacy

Powerex requests that CAISO reconsider the requirement in the Proposal that “[f]lexible capacity must be able to respond five-minute dispatch instructions” and its associated determination that “intertie resources and imports that are not pseudo-tied or dynamically scheduled into the ISO are not eligible to provide flexible capacity at this time.”<sup>1</sup> Although CAISO has committed that it “will continue to assess the ability of imports to provide flexible capacity once we have had experience with 15 minute intertie schedules and individual flexible capacity products that allow for separation of the ISO’s ramping and load-following needs”, there is no reason to preclude the participation of intertie resources as sources of flexible resource adequacy by imposing the five minute restriction at the current time.

There simply has been no demonstration that only five minute dispatchable resources can meet CAISO’s flexible resource adequacy needs. Such justification is lacking and cannot be provided because the five minute dispatch criteria is an artificial restriction that has no sound operational basis. The CAISO proposal considers the maximum **3-hour** net-load ramp of load serving entities,<sup>2</sup> measured during the “top five daily maximum **three-hour** net-load ramps within a given month.”<sup>3</sup> Additionally, each of the Categories of product proposed by CAISO (Category 1 (Unlimited Flexibility), Category 2 (Limited Flexibility), Category 3 (Peak Flexibility), and Category 4 (Super-Peak

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<sup>1</sup> Proposal at 32.

<sup>2</sup> Id at 10.

<sup>3</sup> Id. at 6.

Flexibility)) is measured in terms of the **three hour** net-load ramp.<sup>4</sup> Resources that can respond to fifteen minute instructions can just as effectively provide a product that is measured in three hour blocks of time as those that can respond to five minute instructions. While Powerex understands that CAISO requires that a portion of its overall ramping requirements throughout the day must be 5-minute dispatchable, just as a portion must be regulating reserves that are dispatchable within, and for durations of, mere seconds, it appears undeniable that a large portion of the CAISO's ramping needs can be reliably and efficiently met with 15-minute dispatchable resources.

CAISO curiously would permit resources that can be dispatched as infrequently as five times a month to provide flexible ramping service at the same time that it would preclude flexible resources at the interties with far greater availability. From an economic perspective, CAISO's intention to attempt to exclude a sizeable source of potential ramping supplies at the interties will lead to the inefficient over-procurement of other ramping supplies, at considerable cost to LSEs that could have been avoided and at the ultimate expense of ratepayers. The CAISO grid is not an island and for the CAISO to treat itself like one is detrimental to its own interest and the interest of its users. It is interconnected with adjacent regions that have provided valuable electric service to California for decades, including ramping capability. CAISO's decision suddenly to preclude those resources from providing a service that they are well-positioned to provide to the state is arbitrary and discriminatory, inefficient and inappropriate.

CAISO can and should avoid having its proposal subject to discrimination challenges because it precludes out-of-state supplies at the interties from providing a service that can provide service of equal or greater value to CAISO in terms of meeting its defined ramping needs. Removing an artificial barrier to participation by resources that are fully able to meet California's ramping needs will avoid the specter of such legal challenges, improve liquidity, buttress reliability and permit a lower cost solution to be captured by CAISO's load serving entities. Moreover, the alternative of having CAISO inevitably "lean" on the interties for ramping service in its operational markets, but not allow the suppliers of that service to receive compensation in its longer term ramping procurement capacity markets, is, in Powerex's view, unjust, unreasonable and unduly discriminatory.

CAISO may also put itself in a precarious situation from an operational standpoint to the extent it assumes that resources that are ineligible to contract to provide a service will nonetheless be there when needed. With the ramping needs becoming more and more coincident between the Pacific Northwest and California, CAISO puts itself on a perilous precipice if it believes it can continue to expect and rely on intertie resources to provide ramping capability on a going forward basis, without providing the necessary incentives and commitment framework, as afforded to internal resources under the FRACMOO initiative.

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<sup>4</sup> Id. at 28.

In light of the plethora of reasons that intertie resources should be permitted to provide flexible resource adequacy and the dearth of reasons they should not be so permitted, CAISO should add a “Category 5 (Intertie Resources)” to the four categories it has set forth in the proposal.<sup>5</sup>

### **The CAISO Should Not Dictate that Costs of Required Ramp Should be Borne by LSEs**

CAISO’s proposal to impose the costs of required ramp on LSEs is fraught with unintended harmful consequences and is inconsistent with well-established cost causation principles.

As an example of an unintended and harmful consequence, entities outside of the CAISO footprint would be encouraged by this proposal to build variable energy resources inside the CAISO footprint, since the ramping needs of such units will be funded by CAISO LSEs. These entities will receive a free subsidy to the detriment of the LSE ratepayers.

Because all resources that precipitate the need for ramping service are not contracted to LSEs, LSEs should not exclusively bear the cost of such resources consistent with cost causation principles. Doing so would violate many of CAISO’s seven elements that are to guide its cost allocation decisions, including: 1) causation, 2) comparable treatment, 3) accurate price signals, 4) incentivize behavior, 5) manageable, 6) synchronized, and 7) rational.

Generating resources may or may not be contracted to LSEs. Those contracted to third parties clearly should not have their flexible resource adequacy costs funded by LSEs. Doing so shifts costs from those that caused the incurrence of the costs to the LSEs inappropriately, creating a class of free riders. This discriminates against LSEs, is economically inefficient, is inconsistent with cost causation principles and fails to incentivize appropriate behavior, among other problems. This is equally true of those resources that are contracted to LSEs, but where the commercial terms between the parties dictate that the resource, not the LSE, bears costs such as ramping and/or integration services.

Powerex reiterates its previous recommendation that the ISO allocate costs at a scheduling coordinator level based on each scheduling coordinator’s aggregate ramping needs, including generation and load contributions. Powerex further recommends that the ISO provide a framework for the assignment of this ramping requirement from one SC to another, based on mutual agreement.

### **The CAISO’s method for determining each LSE’s contribution to the system’s ramping needs violates cost causation principles and enables free-riding**

Powerex also disagrees with CAISO that it is equitable to allocate monthly flexible capacity procurement requirements based upon jurisdictional LSEs’ contribution to the

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<sup>5</sup> Id.

3- hour net-load ramp. As PG&E properly has indicated, the monthly averaging of the maximum peak ramps and the use of coincident peak ramps that CAISO has proposed are inappropriate. PG&E asserts that ISO will procure system flexibility to meet the expected peak ramp, not the average ramp, and the use of an average unfairly would charge an LSE with stable load ramp more than one with the same maximum ramp but a lower average ramp.

As to the use of the coincident peak (CP) versus the non-coincident peak, PG&E asserts that use of the CP results in a free ridership problem and is inconsistent with cost causation principles. Even though one LSE has substantial ramp, if it is not coincident with the peak ramp, the CP method leads to allocating the entirety of the flexibility requirement to one LSE and none to the other. CAISO itself has conceded in the proposal that “the ISO’s greatest demand for flexible capacity may not be during the times of peak demand.”<sup>6</sup> Accordingly, CAISO should adopt the PG&E proposal, with one modification. That is, any LSE that has a positive impact on the worse coincident peak ramp for the CAISO grid should have its own worse ramp offset by the amount of its positive impact during this coincident peak ramp and charges assessed reflecting such credit.

Given CAISO’s concession that its demands may be greatest during non-coincident peak times, Powerex strongly opposes the CAISO’s approach. It is simply inappropriate to allow entities that have large ramps in periods outside of the coincidental peak to be free riders.

### **CAISO Should Alter Its Proposal to Eliminate Free Ridership Concerns**

In addition to the free ridership concerns relating to the use of the CP billing determinant discussed above, and the similar “leaning” on the interties free ridership concern, a third free ridership concern exists. That is that the CAISO has designed its proposal as if California is an island also from the perspective of *consumption* of ramping capabilities. It has not placed protective measures in place to preclude the flexible resource adequacy product from being consumed at the interties, either via a decrease in imports or increases in exports, nor has it otherwise taken steps to preclude a shortfall in the resource adequacy product resulting from such activities. Such provisions have been included in the Tariffs of eastern ISOs and should be adopted by CAISO as well.

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<sup>6</sup> Proposal at 35