

Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Straw Proposal, December 13, 2012

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 straw proposal dated December 13, 2012, and issues discussed during the stakeholder meeting on December 20, 2012. The ISO will also review comments filed with the CPUC in R.11-10-023¹ that respond to the questions asked on the Joint Parties' Proposal per the CPUC's December 4, 2012 Scoping Memo.² Therefore, the ISO has not included questions in this template that have already been asked by the CPUC. However, stakeholders that have not submitted comments to the CPUC may include comments regarding those questions at the end of this document.

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 January 9, 2013.

1. The ISO has outlined the basic considerations and assumptions that it proposes (in conjunction with the "Joint Parties") for the flexible capacity needs assessment for 2014. Please provide any general comments/questions/clarifications regarding the needs assessment.

The CAISO's evolving need for non-generic capacity is well documented and adequately justified. SDG&E has no additional comments regarding the "need" for capacity attributes beyond System and Local capacity.

¹ The record for R.11-10-023 can be found at http://delaps1.cpuc.ca.gov/CPUCProceedingLookup/f?p=401:56:1171820792119401::NO:RP,57,RIR:P5,PROCEEDING_SELECT:R1110023.

² The Scoping Memo can be found at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M031/K723/31723210.PDF>.

2. The ISO proposes to allocate flexible capacity procurement obligations to LRAs based on the LRAs contribution to forecasted monthly system peak. Is this the appropriate allocation methodology? What other allocation methodology could be considered?

On balance, the proposed allocation methodology is appropriate. As the Joint Proposal notes, allocation schemes based on load factors, the composition of LSE portfolios, or both, would more precisely address the drivers for flexible capacity procurement, and thus lead to more precise cost allocation based cost-causation principles. SDG&E certainly supports ultimately allocating requirements in line with causation. However, doing so at this time would impose significant new administrative burdens on regulators, forecast and validation burdens on the CEC, and compliance burdens on LSEs.

While other approaches would likely yield allocations more in line with causation, RA parties have ample experience and comfort with allocation based on monthly system peak, and the approach is easily implementable. As such, it aligns well with the first and second Guiding Principles outlined in the August 17, 2012 CPUC workshop on Flexible Capacity requirements. The proposed allocation methodology is administratively simple, and imposes no new or unnecessary burdens on regulators or market participants. Additionally, by leveraging the existing System RA allocation framework, the approach results in minimal disruption to the existing RA program.

3. The ISO proposes to include default tariff provisions for LRAs that do not set flexible capacity procurement obligations. The default level would be the flexible capacity requirement established in the ISO's flexible capacity assessment. Are there other considerations that should be included in the default provisions?

To SDG&E's knowledge, the default provisions adequately allocate generic System RA requirements to LRA's that have not established reserve margins. SDG&E suspects that the mechanism will similarly adequately allocate non-generic flexible capacity requirements during this interim period.

4. The ISO is proposing a year-ahead and 12 monthly showings demonstrating that an LSE has procured sufficient quantities of flexible capacity for each month, with 90 percent of the total flexible capacity obligation be shown in the year-ahead showing and 100 percent in the month-ahead showing. Are these the right levels? Are there any other attributes that should be included in these showings?

This framework mirrors the existing compliance requirements for System RA capacity and is appropriate for an interim solution.

5. The ISO is proposing new backstop authority in the system is deficient in the total amount of flexible capacity required. Are the triggers for issuing a backstop procurement designation sufficient? What else should the ISO consider?

The CAISO proposes to create a Flexible Capacity Procurement Mechanism that would allow the CAISO to backstop procure if: “a) an LSE has insufficient flexible capacity in either its annual or monthly Resource Adequacy Plan and b) there is an overall net deficiency in meeting the total annual or monthly flexibility need requirements after taking into account all LSE demonstrations in their applicable annual or monthly flexible capacity showings.” These triggers mimic those currently authorizing the CAISO to issue CPM designations either for LSE-specific deficiencies in monthly or annual RA showings, or for collective area deficiencies, and should be logically extended to flexible RA deficiencies.

6. The ISO is proposing to use the current CPM rate in procuring backstop flexible capacity. Are there additional considerations in the use of this rate?

Using the existing CPM rate is appropriate, particularly in this near-term Phase I timeframe, as eligible flexible resources will not immediately face heightened offer or performance obligations during the 2014 RA compliance year. Since flexible capacity will be under the same offer and performance obligations as non-generic capacity, there is no rational basis for increasing compensations levels as part of this Phase I effort. Compensation can be addressed in Phase II in conjunction with discussion of increased offer and performance obligations.

7. The ISO proposes to allocate costs for backstop procurement designations to all LSEs that are deficient in their flexible capacity showings. Is cost allocation for backstop correct? If not, what other options should be considered

The cost allocation approach mirrors existing cost allocation under the existing CPM tariff for LSE-specific Local and System RA deficiencies. This method is appropriate for Flexible RA deficiencies when a particular LSE’s showings contribute to an overall deficiency.

8. Are the ISO’s proposed criteria for determining selecting resources to procure for any flexible backstop procurement designation correct?

The selection criteria are designed to minimize procurements costs and appear appropriate for an interim solution.

9. The ISO has put forth a proposed counting convention for hydro resources. PG&E presented an alternative approach. Please comment on the relative merits of each proposal? Does your organization have any additional suggestions to enhance either proposal?

SDG&E supports the Joint Proposal’s recommendations for counting hydro resources largely because it fosters the goal of ensuring the eventual Flexible RA requirement

yields a pool of genuinely flexible resources that help ensure the overall Flexible capacity procurement requirement remains low. This eligibility requirements for hydro resource outlined in the Joint Proposal will help minimize potential backstop procurement, help minimize the potential for cross-subsidization among LSEs with highly flexible portfolios able to comply with strict must offer obligations and those with less flexible portfolios, and importantly, incentivize investment in resource mixes capable of meeting the evolving needs of the grid. Because of these benefits, SDG&E opposes modifications to availability requirements that have the potential to significantly increase the total flexibility requirements.

PG&E's proposal refines the availability requirement to allow hydro resources to provide flexibility, by maintaining the 17 hour must bid obligation, but only obligates the hydro resource to supply 6 hours of energy per day. PG&E suspects its minimum available energy requirement of 6 hours per day will be sufficient to support two distinct three hour ramps on any given day.

SDG&E suspects the CAISO needs about 17 hours of bids from flexible resources to cover all its needs during different seasons, but SDG&E also suspects the CAISO likely does not need 17 hours of energy to meet its flexibility needs on any given day. In light of this, PG&E's 6 hour minimum energy proposal appears reasonable. That said, the 6 hour minimum energy proposal undoubtedly puts additional burdens on the CAISO to accurately predict the "right" 6 hours each day to dispatch, burdens that likely do not exist under the eligibility criteria outlined in the Joint Proposal. Ideally, the minimum number of energy hours per day should be based on how many hours of energy the CAISO needs to avoid requiring or committing additional flexible resources, rather than simply covering two distinct 3 hour ramping periods.

SDG&E could potentially support PG&E's alternate proposal if it can be demonstrated that the proposed mechanism minimizes the potential to increase the overall Flexible Capacity requirements. This may require the CAISO to fine-tune the minimum energy duration from 6 to 8 (or 10) hours to ensure the PG&E alternate solves flexibility needs, rather than contributing to them by creating new peaks or larger ramps. To that end, the CAISO should quantify any reliability decrease caused by PG&E's 6 hour minimum energy proposal, and whether it can be rectified by increasing the minimum hours. Lastly, SDG&E notes that if the modified 17 hour must bid/6 hour must supply obligation is acceptable to the CAISO for hydro resources, then it should logically extend to all use limited resources (i.e air permits) that otherwise meet the eligibility requirements. The CAISO should factor this in when performing the above analysis on the PG&E alternate.

10. Beyond the three issues identified by the ISO, are there any other issues the ISO needs to consider in Stage Two of this stakeholder initiative and why?

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

12. Please feel free to respond to any comments already submitted to the CPUC in R.11-10-023 as they apply to the ISO straw proposal or the Joint Parties proposal.