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?

        Six Cities' Comments: The Six Cities generally agree with the identification of the core components for allocation. However, the determinants for allocation for the maximum three hour ramp due to change in load and change in Distributed Generation should be revised to track more closely the contribution of each LSE to those components, consistent with the cost causation principle.

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.

Six Cities' Response: The Six Cities support the proposed allocation factors for wind, solar PV, and solar thermal resources. As indicated above, however, the factors for allocation of the maximum three hour ramp due to change in load and change in Distributed Generation should be revised to track more closely the contribution of each LSE to those components, consistent with the cost causation principle. For the allocation due to change in load, the allocation to each LSE should be based on contribution to change in load during the time period in which the maximum three hour ramp occurs, rather than being based on contribution to system peak. For the Distributed Generation component, the allocation to each LSE should be based on its relative share of Distributed Generation, rather than contribution to system peak. In addition, the Cities request further explanation regarding the definition of Distributed Generation, specifically, does the definition include only DGs that are net metered, or does it include only DGs that are CAISO recognized resources under applicable PGA/MSS arrangements, or both?

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

Six Cities' Response: The Six Cities do not agree with including 3.5% of system peak or maximum single contingency in the determination of the flexible capacity requirement. In essence, this results in forward procurement of operating reserves, and the ISO has not demonstrated a need for such an obligation.

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.

Six Cities' Response: In general, the Six Cities encourage the ISO to apply rules to use-limited resources that will maximize the ability of such resources to supply flexible capacity while meeting the ISO's operating requirements and balancing the need of LSEs to hedge against market uncertainties through dispatch of their resource portfolio. For example, rather than disqualifying a use-limited resource entirely if it cannot maintain output for six hours at Pmax, the ISO should allow the resource to count toward flexible capacity requirements for that portion of its capacity for which it can maintain output for six hours.

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?

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.

   Six Cities' Response: The ISO should apply bid validation rules and generated bid provisions in a manner that respects to the maximum extent possible the bids submitted by the SCs for flexible resources. For example, if a resource is designated for 100 MW of flexible capacity, but its SC submits a bid for 80 MW, the ISO should generate a bid for the 20 MW difference, as opposed to disqualifying the 80 MW bid.

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.

   Six Cities' Response: For resources that have annual limitations on start-ups or environmental restrictions, the resource should be permitted to specify the start-up/environmental limitations on a monthly basis so as to distribute the annual start-up/environmental allowances in a manner that maximizes value and allows a resource to count toward the LSE's annual Flexible Capacity Requirement. The Six Cities support the inclusion of an opportunity cost to be included in the default energy bid (DEB) that would allow the resource to manage its constraints while meeting the criteria of the availability requirements. In addition, as mentioned in section 6.1.2.2 of the proposal, the ISO should insure that the third party that develops the DEB would be available to meet the requests of resources for forecasts of future LMPs in support of the development of a resource's opportunity cost.

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 **Error! Reference ource not found.** or 5 as appropriate.

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.

   Six Cities' Response: The Six Cities' support the ISO's proposed approach for backstop procurement of flexible capacity.

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

   Six Cities' Response: The ISO should provide a mechanism for compensating resources that have not been designated as flexible capacity resources when it actually uses such resources to meet system flexibility requirements. If the ISO anticipates that such compensation will be available through the Flexible Ramping Product, it should coordinate implementation of the Flexible Ramping Product and Flexible Capacity Requirement provisions so as to provide appropriate compensation for all resources that actually contribute to system flexibility.

   With regard to the ISO's proposed epsilon factor, additional explanation as to how that factor will be developed and applied is necessary to evaluate its appropriateness.

   Consistent with the recommendation above that the ISO establish eligibility requirements for flexible capacity resources so as to maximize the availability of flexible resources to the system, the Six Cities suggest that the ISO provide for recognition of intertie resources that are flexible on an hourly basis. While such resources would not be able to respond to intra-hour ramps, they can help to address the maximum three hour ramp. One possible approach would be for the

ISO to allow intertie resources with hourly flexibility to count toward a portion of the total flexible capacity requirements.