

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.

Six Cities' Preliminary Comments: The Cities apologize for the delay in the submission of this initial set of comments but have required additional time for coordination with the California Municipal Utilities Association and other publicly-owned electric systems that are subject to the authority of Local Regulatory Authorities ("LRAs") other than the CPUC. The Cities have a threshold concern that any flexible capacity requirements must respect both the primary role of LRAs in developing resource procurement policy and differences among LRAs in the directions they choose. The Cities are working with CMUA to assemble data concerning the effects of the load shapes and anticipated resource portfolios of the non-CPUC LSEs on needs for flexible capacity resources. The Six Cities support the comments submitted by CMUA.

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>.

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 2104. Please provide any general comments/questions/clarifications regarding the needs assessment.

Six Cities’ Comments: The Six Cities have no general comments at this time regarding the needs assessment.

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?

Six Cities’ Comments: The Six Cities do not support allocation of flexible capacity procurement obligations to LRAs based on contribution to forecasted monthly system peak. LRAs for non-CPUC jurisdictional LSEs have adopted diverse approaches to resource procurement. Some LRAs have anticipated the operational challenges associated with reliance on Variable Energy Resources (“VERs”) and have addressed those issues proactively, for example, by entering into firming arrangements for VER output or by targeting procurement of renewable energy to resources that are not intermittent. LRAs do not all spring from the same mold. It is both inequitable and inconsistent with cost causation to impose the same proportional obligation to procure flexible capacity on LRAs whose resource portfolios and/or net load profiles do not give rise to comparable flexibility requirements. Flexibility obligations should be ascribed to LRAs based on actual contributions to needs for flexible capacity, taking into account both load characteristics and resource portfolio attributes.

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?

Six Cities’ Comments: See the Cities’ response to Item 2 above.

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?

Six Cities’ Comments: The Six Cities support this aspect of the ISO’s Straw Proposal.

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?

Six Cities' Comments: The Six Cities have no comments at this time on the proposed trigger for backstop procurement of flexible capacity.

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?

Six Cities' Comments: The Six Cities have no comments at this time on the appropriate rate for backstop procurement of flexible capacity.

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

Six Cities' Comments: Allocating costs for backstop procurement of flexible capacity to entities that are deficient in their flexible capacity showings is appropriate. However, as discussed in response to Item 2 above, allocation of flexible capacity procurement obligations based on contribution to system peak is not consistent with cost causation. The Cities, therefore, condition their support for the proposal to allocate backstop procurement costs to entities that are deficient in their flexible capacity showings on the adoption of a method for assigning flexible capacity procurement obligations based on actual contributions to flexible capacity needs, *i.e.*, based on analysis of both load variability and variability in an LSE's resource portfolio.

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

Six Cities' Comments: The Six Cities support this aspect of the Straw Proposal.

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?

Six Cities' Comments: The Six Cities support PG&E's suggestion for determining eligibility to count toward flexible capacity and believe it should apply not only to hydro resources but also to other types of use-limited resources. The PG&E approach appropriately ties the eligibility and counting criteria to the three hour ramping periods that the ISO has determined will drive the flexible capacity need.

Allowing resources that can assist in meeting the three hour ramps to count toward satisfaction of flexible capacity obligations, even if they cannot provide energy on a more extended basis, will maximize the pool of eligible resources without any significant adverse effect on operational reliability.

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?

Six Cities' Comments: The Six Cities have not identified at this time any additional issues for consideration in Stage 2 of the stakeholder process on flexible RA requirements. However, please see the Cities' comments on Item 11 below regarding the need (or lack thereof) for a bifurcated stakeholder process with expedited determination of Stage 1 elements.

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

Six Cities' Comments: The Six Cities have the following additional comments at this time - -

- a) The Six Cities support the ISO's proposal to implement flexible capacity procurement through a bilateral framework.
- b) It is not clear that a bifurcated stakeholder process on flexible capacity procurement, with expedited determination of Stage 1 elements, is either necessary or appropriate. The ISO's analysis indicates that system conditions are not expected to impose a need for designated flexible capacity until 2015 or beyond. Expedited implementation of Stage 1 elements without thorough analysis of all issues and potential complexities may give rise to unintended consequences and misdirect resource procurement plans. In the Cities' view, there is sufficient time to consider all issues relevant to the anticipated flexible capacity needs through a comprehensive process that could get it right the first time.
- c) Among other potentially critical issues, the Six Cities are concerned that the ISO's proposed approach does not include measures to accommodate the use of resources external to the ISO's Balancing Authority Area to meet flexibility requirements. It would be short-sighted and counterproductive to assume that the ISO can satisfy all flexibility requirements using existing resources located within the ISO's BAA or building within the BAA. The Six Cities urge the ISO to consider ways to expand the ability of resources located outside the ISO's BAA to satisfy flexibility requirements.

- d) The Six Cities do not support the ISO's proposal to "bundle" flexible capacity attributes with generic capacity. The consequence of such bundling will be to mute incentives to develop and/or deploy flexible capacity resources, thereby undermining the basic purpose for flexible capacity requirements. In addition, bundling will restrict the ability of owners of existing flexible capacity resources to receive the value of their flexible attributes. Recognizing that unbundling flexible attributes from generic capacity may make implementation more complex, this is an issue that supports the Six Cities' recommendation to take additional time for this stakeholder initiative in order to develop an approach more likely to achieve the stated objectives.
- e) The Six Cities do not understand the ISO's proposal (at page 5 of the Straw Proposal) to allow VERS to count toward satisfaction of flexible capacity requirements. As increased reliance on VERS is the primary driver of the increasing need for flexible resources, it seems nonsensical to allow the types of resources that are driving the need to count toward addressing the need they are exacerbating.
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.

Six Cities' Comments: As noted in response to Item 11 above, the Six Cities support the ISO's proposal to implement flexible capacity procurement through a bilateral framework. The Six Cities, therefore, oppose comments submitted to the CPUC in R.11-10-023 that urge the implementation of a centralized capacity market. Implementation of a centralized capacity market is not necessary to facilitate efficient procurement of flexible capacity. Indeed, it is entirely possible that a centralized capacity market could interfere with the ISO's ability to encourage the development of capacity resources with the necessary flexible attributes if the product purchased through the centralized market does not properly define the required attributes.