

Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Straw Proposal, July 25, 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 July 25, 2013, and issues discussed during the stakeholder meeting on August 1, 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 August 15, 2013.

1. The ISO has proposed a process by which an annual flexible capacity requirement assessment would be conducted. Please provide any comments or questions your organization has regarding this proposed process.

Six Cities' Response: The Six Cities support the proposed process for annual assessment of flexible capacity requirements provided that all interested LRAs have the opportunity to participate fully in the assessment process.

2. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. It is based on one possible measurement of the proportion of the system flexible capacity requirement to each LRA and calculated as the cumulative contribution of the LRA's jurisdictional LSE's contribution to the ISO's largest 3-hour net load ramp each month. Please provide comments regarding the equity and efficiency of the ISO proposed allocation. Please provide specific alternative 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. Over the course of a day or month, any of the identified contributors to the change in the net load curve may be positive or negative. How should the ISO account for the overall variability of a contributor over the month (i.e. how to account for the fact that some resources reduce the net load ramp at one time, but increase it at others)?

Six Cities' Response: Two aspects of the ISO's 2nd Revised Straw Proposal - - (i) developing flexible capacity requirements on a monthly basis recognizing seasonal differences in contributions to the maximum monthly three hour ramp, and (ii) allowing intermittent resources to provide flexible capacity under a specialized must-offer obligation - - appropriately address the variability of contributions to the net load ramp at different times. Recognizing seasonal differences in resource attributes and usage patterns through development of flexible capacity requirements on a monthly basis will address broad variations in resource contributions to flexible capacity requirements, while allowing intermittent resources to count toward meeting flexible capacity requirements under specialized must-offer obligations effectively will recognize "negative" contributions to the net load ramp on a more granular basis.

- b. What measurement or allocation factor should the ISO use to determine an LRA's contribution to the change in load component of the flexible capacity requirement?

Six Cities' Response: The ISO should base the change in load component of the flexible capacity requirement on changes in load for LSEs subject to each LRA's oversight during the monthly maximum three hour ramp periods used to establish the monthly system flexible capacity requirements. The data used to determine LSE changes in load during the monthly maximum three hour ramp periods could be historical data for recent years or the forecast data used by the ISO to estimate the monthly maximum three hour ramps.

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

Six Cities' Response: As described in response to subpart b above, the Six Cities believe that the method for measuring the change in load contribution to the flexible capacity requirement should be modified to reflect changes in load during the monthly three hour ramp periods used to establish the monthly flexible capacity requirements. Subject to that modification, the Six Cities support the method for allocating flexible capacity requirements described in the 2nd Revised Straw Proposal. The

Six Cities also support the allocation of flexible capacity requirements to LRAs rather than individual LSEs so as to accommodate LRA procurement policy to the maximum extent possible.

3. The ISO has proposed must-offer obligations for various types of resources. Please provide comments and recommendations regarding the ISO's proposed must-offer obligations for the following resources types:

- a. Resources not identified as use-limited

Six Cities' Response: The Six Cities support the ISO's proposed must-offer requirements for resources that are not use-limited.

- b. Use-limited resources

Six Cities' Response: The Six Cities believe that it is in the best interests of both resources and loads to frame the eligibility criteria and must-offer requirements for Flexible RA resources in a way that maximizes the incentives for resources of varying types to make available to the ISO whatever flexible attributes they may have. A central message from the FERC technical conference on July 31 is that operating challenges are evolving, and the operating characteristics that are most useful to the ISO in one year will not necessarily be the most desirable attributes three or more years thereafter. Stated differently, the Flexible RA program itself should remain flexible while providing support for rational and effective development and procurement of resources.

Toward those ends, the Six Cities recommend that the ISO give further detailed consideration to establishing different "buckets" for Flexible RA resources. The bucket concept has been suggested, in greater or lesser detail, by several stakeholders. See the ISO's Matrix of Comments and Responses on the Revised Straw Proposal at pages 26 (NRG) and 69 (SDG&E). The ISO's responses to these suggestions indicate that the ISO is "not opposed" to a bucket approach (Comments/Response Matrix at 70) and was "evaluating whether a 'bucket' approach might be more efficient than allowing full participation by all use-limited resources with strict must-offer requirements" (*Id.* at 82). As summarized by the DMM, "counting rules and must-offer obligations may need to be tailored to different resource types, while ensuring that the overall mix of resources procured to meet a forward capacity obligation provides the needed flexibility." (*Id.* at 81). The Six Cities believe that a bucket approach offers the greatest promise for addressing several of the inherently conflicting objectives in flexible capacity procurement.

Conceptually, the bucket approach would allow resources that cannot satisfy requirements for 5-minute or sustained dispatchability to meet some portion of the ISO's flexibility requirements, while requiring 5-minute dispatchability and the capability for sustained energy production for a defined percentage of the flexible capacity requirements. Establishing different buckets for Flexible RA would provide support for the development of a broad range of resources with different types of operating characteristics, which would reduce the potential adverse consequences (economic, policy, and reliability) of putting all of the reliability eggs in one bucket. If the percentages allowed for each bucket were adjusted gradually from year to year as system characteristics evolve, there would be sufficient durability to support resource development and procurement without locking in a portfolio of resources that may turn out to be unsuitable or inadequate.

Application of a bucket approach also would allow the ISO to manage potential reliability concerns resulting from the relaxation of eligibility criteria or must-offer requirements to accommodate the development of preferred resources. Allowing resources with different flexibility attributes to count toward a portion of Flexible RA requirements is appropriate, but relaxing eligibility criteria or availability requirements on a broad scale could result in threats to reliability or substantial backstop procurement by the ISO. Both consequences would be undesirable, and both could be avoided by implementation of the bucket approach.

1. Please provide specific comments regarding the ISO's four step proposal that would allow resources with start limitations to include the opportunity costs in the resource's start-up cost.

Six Cities' Response: The Six Cities' previous comments noted that information on historic patterns of LMPs will be necessary to support estimation of opportunity costs. The ISO should assist in the assembly of that information. In addition, as several stakeholders mentioned in their previous comments, determination of opportunity costs must be dynamic to recognize that opportunity costs for start-ups and/or usage subject to energy limitations will increase as start-ups and energy production approach the established limits. See the Comments/Response Matrix at 27 (NRG), 70 (SDG&E), and 82 (DMM).

2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

Six Cities' Response: At least two of the Cities (Pasadena and Riverside) require internal resources to maintain distribution system reliability during peak conditions. Self-scheduling of Flexible RA resources should be permitted during periods when those resources are necessary to manage such local reliability constraints that are not modeled in the ISO's optimization program.

c. Hydro Resources

Six Cities' Response: The Six Cities would support expanded recognition of hydro resources to meet a portion of the flexibility requirements under the bucket concept described above.

d. Specialized must-offer obligations (please also include any recommended changes for the duration or timing of the proposed must-offer obligation):

Six Cities' Response: The bucket approach described above would allow the ISO and LRAs to apply specialized must-offer requirements to different categories of resources without undue risks to reliability or excessive backstop procurement. In addition to the resource types identified below, one bucket should include imports dispatchable on a fifteen minute or even hourly basis. See the Comments/Response Matrix at 49 (Six Cities) and 56 (Powerex). The ISO also should consider revisions to the intertie import allocation process necessary to enable intertie resources to count toward flexible capacity requirements.

1. Demand response resources

2. Storage resources

3. Variable energy resources

4. The ISO has proposed to include a 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 backstop procurement of flexible capacity by the ISO only when there is an aggregate deficiency. Implementation of the bucket approach described above should assist LRAs and the ISO in developing Flexible RA requirements that will minimize the occurrence of aggregate deficiencies and the need for procurement by the ISO. To the extent backstop procurement by the ISO does become necessary to address an

aggregate deficiency, the Six Cities would support giving the ISO discretion to target such procurement to resources that satisfy full dispatchability requirements.

5. The ISO is not proposing to use bid validation rules to enforce must-offer obligations. Instead, the ISO is proposing a flexible capacity availability incentive mechanism. Please provide comments on the following aspects of the flexible capacity availability incentive mechanism:

Six Cities' Response: In general, the Cities support the concept of an availability incentive mechanism rather than application of generated bids. Another advantage of implementing the bucket approach for satisfaction of flexible capacity requirements would be the ability to tailor availability incentives to the operating characteristics and patterns associated with the resources in the different buckets.

- a. The proposed evaluation mechanism/formula

1. The formula used to calculate compliance
2. How to account for the potential interaction between the flexible capacity availability incentive mechanism and the existing availability incentive mechanism (Standard Capacity Product)

Six Cities' Response: Because the ISO does not propose to allow unbundling of flexible attributes from capacity generally, a resource should be subject to only one non-availability charge during a measurement period. If the non-availability charges for flexible capacity end up being different from the non-availability charge under the Standard Capacity Product provisions and both would apply during a measurement period, the higher of the applicable charges should be imposed for that period.

- b. The use of a monthly target flexible capacity availability value

1. Is the 2.5% dead band appropriate?

Six Cities' Response: As part of further evaluation of the bucket approach described above, the ISO and LRAs could consider the appropriateness of applying different dead band values to the resources in the different buckets.

2. Is the prevailing flexible capacity backstop price the appropriate charge for those resource that fall below 2.5% of monthly target flexible capacity availability value? If not, what is the appropriate charge? Why?

Six Cities' Response: The Six Cities support application of the prevailing flexible capacity backstop price to resources that fall below the dead band for the applicable monthly target flexible capacity availability value. Application of the prevailing flexible capacity backstop price is appropriate to minimize the potential that non-availability of resources counted on for Flexible RA could necessitate backstop procurement by the ISO.

- c. Please also include comments regarding issues the ISO must consider as part of the evaluation mechanism that are not discussed in this proposal.
6. Are there any additional comments your organization wishes to make at this time?

Six Cities' Response:

The criteria for determining the epsilon factor must be better defined in the tariff and subject to reasonable bookends. The Six Cities cannot support leaving that error factor completely open-ended.

In addition, as discussed in the Six Cities' previous comments, 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.