

Western Power Trading Forum Comments on the Flexible Ramping Product

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WPTF appreciates the CAISO's continued refinement of its Flexible Ramping Product FRP proposal and offers these comments on the CAISO's March 6, 2012 Third Revised Straw Proposal.

- CAISO Proposed Real-Time FRP settlement
 - WPTF continues to object to the CAISO's proposed implementation whereby units are not paid for the capacity value of their resource in the real-time procurement process. There is no reason for the CAISO to include in the clearing price the bid-based capacity value in the day-ahead FRP clearing price and not include it in the real-time FRP clearing price. WPTF strongly encourages the CAISO to reconsider this element of their proposal and to include an FRP MCP element in the real-time FRP settlement both when the relied-upon resource is dispatched within a 5-minute RTD interval and when the relied-upon unit is not dispatched in the RTD interval.
 - WPTF is similarly concerned about the prospect that seems to exist under the CAISO's revised proposal regarding RT procurement in RTD that units committed in the RTUC and not later selected in RTP would receive no FRP compensation. WPTF recommends the CAISO at a minimum provide as compensation the capacity component of the FR clearing price to any such capacity.
- "Market Power" Provisions:
 - There is no reason to believe there will be market power in the provision of this product. There is no market power demonstrated for any of the other ancillary services, and given that a wider range of units can provide FRP than operating reserves, there is no credible reason to presume market power. It is inappropriate for the CAISO to layer on provisions to mitigate market power.
 - Having said that, WPTF is willing to consider the imposition of an initial application of a \$250 bid cap, as this is consistent with the operating reserve bid caps. WPTF understands that the CAISO is proposing a \$0/MWh bid floor to provide FR up or down. WPTF wishes to confirm that there are no caps or floors that will provide to the energy associated with the FRP capacity other than the existing energy bid caps or floor. (This is notwithstanding the application of an SC-specified bid range as described in the paper section 2.1.5, which we address below.)
 - WPTF strongly objects to the proposed limitation that FRP bids be less than operating reserve bids, as this has no basis whatsoever. Certainly if a party bids less for operating reserves than for FRP the CAISO is free to substitute the non-contingent spinning reserve product to satisfy the FRP need. However, that right for the ISO to use the NC

spin bid to satisfy its FRP requirement should not equate to a requirement that an SC's FRP offers should be as low as their spinning reserve offers.

- CAISO Proposed Demand Curve
 - WPTF strongly objects to the CAISO's proposed implementation (Section 2.2.2) of a demand-curve like set of prices that the CAISO would use to not procure FRP. The CAISO has explained the long, arduous and complex means that it will use to determine the proper quantity of FRP that it will procure based on the variability and unpredictability of the system. The CAISO's procurement of FR is avoiding price spikes of \$1000 or more per MWh in the energy market. Further the inclusion of such a demand curve in the proposed FRP design is logically inconsistent with the CAISO's characterization that the FRP is needed for operational reasons and the levels of prices proposed by the ISO are logically inconsistent with the proposed bid cap of \$250/MW. (That is the \$250 capacity component bid cap would essentially never be relevant with opportunity cost + capacity product costs that are avoided at the demand curve levels proposed by the ISO.)

- CAISO proposal for stochastic consideration of energy bids: WPTF has no philosophical objection to what could be considered an objective to satisfy the energy and ramping needs at least [bid-based] cost. The CAISO addresses two such proposed mechanisms in sections 2.1.4 and 2.1.5. WPTF is very concerned, however about the possibility of intended consequences and we have some concern with the overall complexity associated with these provisions. WPTF has no basis with which to evaluate the specific parameters the CAISO presents in section 2.1.4. We request that the CAISO include in its proposal a commitment to perform specific testing of the proposed parameters prior to the product's go-live date and to report on the testing and the findings to market participants, providing an opportunity for stakeholder input on the final parameters. WPTF also requests the CAISO commit to a six-month look back as to the efficacy of the design once it is operational. (We expect the CAISO will have a mechanism to adjust the parameters sooner if problems are discovered.) The design of the stochastic processes and the parameters should be thoroughly described in a relevant BPM.

WPTF also has no fundamental objection to the proposed bidding on a range that would limit an SC's bids associated with that portion of its energy bid curve awarded to the FRP in real-time. (Nor do we at this time have a preferred alternative recommendation for the concerns the CAISO expresses regarding carrying the DA-awarded capacity forward with updated real-time bids.) WPTF would benefit from further discussion about the design of such a bid "collar" including how an SC would know at the time of the DA bid (when awards are not yet known) to which portion of its day bid curve the collar would apply (e.g., lower range, upper range, etc.) We encourage the ISO to host an additional telephone meeting where this issue can be discussed, at a time in the process when the CAISO would still have the ability to adjust this aspect of its design.

We hope these comments provide the ISO useful feedback for its further product refinement are hopeful that the CAISO will make additional refinements consistent with this feedback. We understand that these design characteristics are complex and at the same time can be subtle and would be pleased to clarify any of these points further upon request.