

Western Power Trading Forum Comments on FRP

September 3, 2014

WPTF appreciates the opportunity to submit these comments on the CAISO's Flexi Ramp Product (FRP) proposal dated August 13, 2014 and further discussed on August 20, 2014.

WPTF's comments are limited to the CAISO proposal that DA bids for FRP be set to \$0/MW rather than the prior proposals' provision that SCs could bid to provide FRP.

WPTF encourages the CAISO to return to its prior proposal to allow bidding of the FRP in the DA market. Bidding of the FRP in the DA market is consistent with the structure that has been in place for some time for the ISO's ancillary services. These services at times have cleared at non trivial prices and at other times some of these services have cleared near \$0/MW. As a result it seems that so long as the market is competitive there is no reason to force bids to \$0/MW. Further, the DMM suggested in their paper "The Role of Separate Capacity Offers in Spot Capacity Reserve Markets" (July 31, 2015) that there could be various costs with capacity provision. According to the DMM costs might include O&M, staffing, gas scheduling and transportation costs, and scheduling costs. Simply because no costs have been demonstrated that does not mean that a participant's costs are \$0/MW.

For these reasons, it seems unnecessary and potentially damaging for the CAISO to force suppliers to \$0/MW bids.

Additionally allowing a bid for FRP will let suppliers express a relative preference for providing services. For example a supplier could bid \$0/MW for its Resource A to provide FRP and \$0.05/MW for its Resource B to provide FRP if for some reason the supplier's non-energy costs of ramping Resource A were lower than its non-energy costs of ramping Resource B. All else equal, then the CAISO's systems would choose Resource A before it chose Resource B to provide the FRP. This would allow an economically efficient outcome. Under the CAISO's most recent proposal the only means a supplier has to invoke a preference at the ISO in response to different FRP costs or risks for different resources is to offer to provide a quantity of zero MWs from a particular resource. This is a much less desirable outcome, as it may likely result in a significantly lower pool of resources and only provides a very blunt tool for efficient allocation of the FRP service to supply sources.

WPTF also supports the MSC statements made during the August 22 MSC discussion on this topic. The MSC reminded the CAISO that rather than a bilateral forward compensation mechanism, it prefers a solid spot market signal for ramping services and that by forcing bids to \$0/MW the CAISO would be relying upon forward contracting revenues over energy payments. This is moving away from the MSC-recommended approach.

We appreciate the opportunity to submit these comments and look forward to the CAISO's continued consideration of the FRP bidding mechanism.