

Western Power Trading Forum Comments on CAISO Flexible RA and Must Offer Requirement Second Revised Straw Proposal

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WPTF appreciates the opportunity to submit comments on the CAISO's July 25, 2013 Second Revised Straw Proposal for flexible RA capacity and MOO ("FRAC MOO"). We offer comments in the following areas.

Alignment of the FRAC needs determination process with the local capacity requirement process seems reasonable

WPTF supports aligning the processes and timelines between flexible RA requirements and local RA requirements. Combining the two processes would seem to offer an efficient process.

Allocation of FRAC requirement to LRAs requires fine tuning

WPTF requests the ISO reconsider its proposed allocation of the net 3-hour maximum ramp needs to LRAs, especially in recognition that CPUC may adopt a similar allocation to further allocate the requirements to LSEs. The latest proposal – to allocate to load share – would allocate to parties inconsistent with the contribution to the overall ramping need. Instead the ISO should consider an allocation policy based on the sum of the LSEs' coincident contribution to the overall max ramping need. This would allocate the ramping need consistent with the derivation of the need itself.

Product definitions, counting rules and must offer requirements must be aligned to ensure just and reasonable treatment

There are three elements of the FRAC policy design that are necessary to clearly understand the product, how it will count toward the ISO's ramping needs, and the performance requirements/incentives/risks associated with the product. These are: (1) the product definition, including what resources qualify and which do not, (2) the counting rules (e.g., how much of what resources contributing in what proportion to meeting the ISO's needs and the extent to which their MWs of capacity can be compensated for FRAC), and (3) the performance requirements and risks, incentives, and penalties.

Without a clear simultaneous definition of these three attributes the FRAC mechanism is incompletely defined and impossible to evaluate.

The ISO's proposal presents a single product definition inclusive of many technologies yet with different performance requirements/risks/incentives. While the ISO's proposal includes counting rules for non-energy limited conventional generation and hydro, counting rules for some resources (such as storage and VERs) are not defined.

The ISO's proposal does however propose unique offer requirements for some resources. WPTF is concerned that without addressing counting rules it is impossible to judge the efficacy of the ISO proposal. For example, a policy that has a single 3-hour ramp offer obligation yet different must offer requirements could result in inequitable compensation between resource types, if for example all resources were counted to FRAC obligations equally.

WPTF is open to policies that encourage broad participation, but discriminatory compensation through disparate offer requirements/risks for a single product design could create significant distortions. We further object to the proposal because the ISO has offered relaxed requirements for some resources while not recognizing the operating limits of others – such as those Combined Heat and Power (“CHP”) or Qualifying Facility (“QF”) resources operated by WPTF members. Ideally, all market products, including flexible capacity, should have standard, consistent performance requirements across all technologies. To the extent that performance requirements cannot be standardized across all technologies, the CAISO should articulate clear principles for differentiating performance requirements, e.g., rules that specify how all resources with limits on their availability will be treated rather than specific rules for only certain availability-limited resources.

WPTF urges the ISO to reconsider its design and develop assumptions and/or guidelines regarding counting rules to ensure that providers of FRAC are treated comparably while considering their contributions to the needs defined by the ISO (currently established as a three-hour ramping product). This is critical to ensuring an effective product design and necessary to ensure non-discrimination across providers.

WPTF supports the proposed change away from populating bids for MOO, but the performance incentive requires a different basis

WPTF agrees with the ISO that an offer incentive plan is easier to implement and desirable over the ISO's prior proposal of populating bids as part of the MOO for resources that neglect to bid. However, ISO's proposal to use CPM as the basis for the incentive requires reconsideration. To penalize a resource that is unable to submit bids on a few occasions at the CPM rate would be inconsistent with cost causation, as it could be the case that the ISO finds it unnecessary to procure any more flexibility during times of less than full bidding.

If the ISO continues to wish to apply a financial penalty during instances of no bidding, WPTF advocates for the use of the Reliability Services Auction (“RSA”) clearing price. That price would reflect the cost of procuring additional flexible capacity.