# Stakeholder Comments Template

| Submitted by | Company | Date Submitted |
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Please use this template to provide your comments on the FRACMOO Phase 2 stakeholder initiative Revised Straw Proposal posted on May 1, 2017.

Submit comments to InitiativeComments@CAISO.com

**Comments are due May 22, 2017 by 5:00pm**

The Revised Straw Proposal posted on May 1 and the presentation discussed during the May 8 stakeholder web conference may be found on the FRACMOO webpage.

Please provide your comments on the Revised Straw Proposal topics listed below and any additional comments you wish to provide using this template.

**Proposal to modify eligibility criteria**

1. Start-up time less than 4.5 hours

   **Comments:**

   As various parties pointed out during the May 8, 2017 stakeholder meeting on the Revised Straw Proposal, the CAISO has not demonstrated the need for 4.5 hours of start-up time. Many stakeholders stated that the CAISO had provided little data or analysis to support this significant change to its flexible capacity framework.  We agree that more data and analysis are needed to demonstrate the need for these proposed changes and the basis for CAISO's sense of urgency.

It appears that the intent of the CAISO proposal is to prevent long-start, Once Through Cooling (OTC) plants from being procured and dispatched for flexible capacity. We are sympathetic to the CAISO's concerns and its desire to have flexible resources that can be started and stopped multiple times a day to provide flexibility with a minimal Pmin burden. However, the OTC plants may still be in the market until they retire, procured for system or local reliability, and thus may still be self-scheduled or dispatched.

There are timing issues with the proposal that appear to run counter to the implication that there is an urgency to adopt it. The CAISO has stated that its "short term" proposal will be able to receive Board approval by the second quarter of 2018. This raises concerns about its ability to even affect the 2019 Resource Adequacy compliance year, since the California Public Utility Commission (CPUC) resource adequacy (RA) decisions occur in June and it is not clear how a Board of Governors decision in the second quarter of 2018 could affect a June 2018 CPUC decision for 2019. Since the OTC plants are to be retired at the end of 2020, there is a real possibility that the schedule for this proposal would result in a potential elimination of the use of OTC plants for flexible capacity for one or, with an alternative schedule, at most two years.

The CAISO cites the CPUC's Integrated Resource Planning (IRP) proceeding as a reason for postponing its development of its long-awaited durable flexible capacity product. The CAISO is offering this current revised straw proposal as a "short term" proposal in the interim. However, the IRP has not eliminated the need for the RA proceeding or for procurement of RA capacity. Furthermore, it is unlikely that the IRP proceeding, which is designed to perform long-term resource planning, will focus on flexible capacity or resource adequacy with any level of granularity. Rather, in Rulemaking R. 16-02-007 (the IRP) as well as in its subsequent Scoping Memo, the CPUC has emphasized the need to coordinate the IRP proceeding with the RA proceeding, R. 14-10-010.

While we are supportive of the CAISO having the resources it needs to maintain reliability as the amount of intermittent resources in the mix increases, it would be much easier to support a proposal that is backed by some detailed analysis, such as a rigorous analysis of the CAISO's typical dispatch to meet its flexibility needs. As several stakeholders pointed out during the May 8 stakeholder meeting, the CAISO has not demonstrated the impact of its proposal on system reliability, costs, or renewable curtailments. Nor has the CAISO analyzed how local, system, and flexible capacity are committed and whether removal of the long-start OTC plants will alleviate the problem of renewable curtailments and reduce costs. The interaction of planning and operational concerns is important in this context.

Pacific Gas and Electric (PG&E) expressed a concern that if the OTC units are retired, faster start units might be committed in the day-ahead market and not be available in the real-time market, where the CAISO claims it needs them. The Western Power Trading Forum (WPTF), PG&E and other parties asked the CAISO to prioritize capacity attributes based on a sophisticated technical analysis. PG&E suggested using production cost modeling for this purpose. CLECA agrees that such analysis is needed and could clarify the needs that flexible capacity must meet in the context of how the system is operated.

In its Revised Straw Proposal, the CAISOs states, “The ISO reviewed the Flexible RA showings for February 2016 and compared these showings to the 2016 EFC list. The 2016 EFC list contains 35,234 MW of EFC eligible capacity, including 16, 860 MW of long-start capacity. The February 2016 Flexible RA showings indicate that 6,066 MW of long-start resources were shown towards meeting a 10,507 total system wide flexible RA requirement.” During the stakeholder meeting on May 8, the Energy Division requested to see the impact of the CAISO’s current proposal on the Effective Flexible Capacity (EFC) list. CLECA agrees that this is very important. Without such numerical evidence, it is difficult if not impossible for parties to assess the need for and the effectiveness of the CAISO’s current proposal.

During the May 8 meeting, stakeholders repeatedly requested the CAISO to clearly state its goals in altering the flexible capacity criteria. It is not clear if the CAISO’s objective is to reduce renewable curtailment in general, reduce solely uneconomic curtailment, or simply address the issue of over-capacity. If the goal was to reduce renewable curtailment, WPTF and other stakeholders noted, then dispatching peaking units may not be the best option. Imports may be able to meet the CAISO’s flexible capacity needs. In response, the CAISO alluded to the technical constraints it is experiencing in effective use of its interties and the need for possible market changes to use imports for this purpose. We urge the CAISO to begin to assess what changes are needed and how to accomplish them so that it can expand the pool of possible flexible resources to include imports.

We agree with WPTF that the use of out-of-state hydro resources could be a very important way of meeting ramping need and enabling California to achieve its goal of a

50% or higher Renewable Portfolio Standard (RPS). In addition, California's RPS goals cannot be successfully achieved without the aid of sophisticated operational tools. The CAISO should therefore prioritize the development of such tools.

During the May 8 meeting, various stakeholders pointed out that, because of the current capacity glut in the market, the price of energy during hours of renewable generation is often zero or negative. Indeed, the CAISO discussed the fact that low energy and ancillary services prices are creating a revenue shortfall that could be made up with higher capacity (RA) payments. Many stakeholders wondered if, by prematurely eliminating certain plants from bidding into the market, the CAISO was creating an artificial scarcity and thereby ensuring higher capacity-related revenue streams for certain peaking units. The CAISO did not address the market power implications of substantially reducing the resources that are needed for flexibility to perhaps 85-90% of those eligible to provide that flexibility. Furthermore, there has been no assessment of the impact on consumers of the higher RA prices that are likely to result.

As Kevin Woodruff, the consultant for Toward Utility Rate Normalization (TURN), pointed out during the workshop, the consulting firm E3 has developed a chart demonstrating trade-offs between renewable curtailment and the construction of additional storage. CLECA believes this type of trade-off analysis should be performed in order to maximize renewable generation, reduce GHG impacts, minimize costs, and operate the grid reliably. Such analyses might be performed in the IRP in the long-term horizon. However, the more granular, operational analyses for the short and medium term are also needed.

2. Minimum run-time less than 4.5 hours
   **Comments:**

   CLECA's general comments above apply to the CAISO's proposed new criterion for minimum run-time.

   Specifically, we are concerned that imposing the minimum run-time of less than 4.5 hours will make a large number of resources ineligible to provide flexible capacity. At the same time, at the last stakeholder meeting, the CAISO indicated that it is not sure it will have enough flexible resources for more than a few years. The tradeoff between having less desirable flexible resources vs. having insufficient flexible resources has not been made clear.

In its Revised Straw Proposal, the CAISO states, "The ISO identified 16,612 MW of long-run capacity that is currently eligible to provide flexible capacity, with 5,045 MW of that long-run capacity shown in the February 2016 RA showings." It then states, "The total magnitude of resources that would be deemed ineligible to provide flexible capacity under the proposed modifications would be 18, 191 MW, leaving 17, 042 W of remaining eligible flexible capacity. While this remains higher than forecasted 2018 and 2019 flexible capacity needs as currently defined, the ISO expects that this proposal may not be sustainable beyond 2019."

We are perplexed that the CAISO is putting forth a proposal that may effectively work only for one year. We are also concerned that, as mentioned above, as long as the OTC plants have not retired, they will continue to be operated for local or even system capacity, undermining the CAISO's anticipated outcome.

What is missing from the new proposal is a demonstration that by reducing the minimum run time to 4.5 hours, fast ramping resources will be dispatched in real time and will meet the CAISO's operational needs.

3. Category 3 flexible capacity resources must be available seven day per week
   **Comments:**

   CLECA has no objection to this proposal.

**<u>Future considerations</u>**

The ISO identified the following six objectives for long-term RA enhancements:

1) Provide for the efficient retention and retirement of resources needed to maintain reliable grid operations by aligning resource adequacy requirements with operational needs;
2) Simplify RA procurement and showing processes through alignment with system and local capacity provisions;
3) Enhance requirements to more closely differentiate particular resource attributes of flexible capacity needed to maintain operational reliability and achieve state policies;
4) Align long-term planning and annual RA processes to ensure the long-term planning objectives and assumptions are properly reflected through RA procurement and vice versa;

5) Provide opportunities for internal and external resources to qualify to supply flexible capacity if they are able meet the specified requirements; and
6) Solutions should be scalable regardless of number of LSEs or size of LSEs

Please provide comments, as appropriate, on these objectives.

**Comments:**

Should additional objectives be added?

**Comments:**

The above list of objectives is fine. The problem is not with the list, but with the dilemma the CAISO seems to be facing as to how to optimize its various objectives. CLECA believes that the CAISO must develop operational tools and software to make use of hydro imports through the interties. The CAISO should aim to optimize renewable generation along with the use of storage and imports while maintaining local and system reliability, meeting the grid's flexible ramping needs, and helping minimize the cost impact of doing all this. As the CAISO has pointed out, the IRP proceeding will assist in shaping its long-term objectives and operational strategy but it is CLECA's belief that relying entirely on the IRP to guide the CAISO will not be wise. California's electric grid must be operated reliably and efficiently in the short to medium term horizon and the CAISO must work with the CPUC to develop analyses and tools in order to do so.

**<u>Other</u>**

Please provide and comments not addressed above, including any comments on process or scope of the FRACMOO2 initiative, here.

**Comments:**