CMUA Comments on the CAISO
Standard Capacity Product Proposal

The California Municipal Utilities Association ("CMUA") submits these comments on the CAISO's Straw Proposal to create a Standard Resource Adequacy Capacity Product ("SCP"). CMUA submitted comments in this stakeholder process previously.

As an initial matter, CMUA is not philosophically opposed to creating an SCP. A properly structured SCP that recognizes resource differences, jurisdictional differences among Local Regulatory Authorities ("LRA") and between LRAs and the CAISO, and other real world considerations may benefit bilateral capacity market trading. At the same time, and particularly in the initial roll-out, the CAISO proposal must "take the world as it is," and not devalue existing resource choices and Resource Adequacy ("RA") policies adopted by LRAs.

"Mandatory v. Optional" and Treatment of Particular Resources

The CAISO Straw Proposal states that the SCP is intended to be the sole and mandatory mechanism that will be used to demonstrate compliance with the LRA's adopted RA requirements. As CMUA understands it, the rationale behind the mandated use of SCP Tags is to create a more liquid market for the Tags and ease program administration for the CAISO.

CMUA appreciates the fact that the Straw Proposal recognizes the existence of varied types of RA resources in California and submits that such a situation makes homogeneous treatment of RA resources difficult. For its members, CMUA would like the CAISO to consider that the exceptions swallow the rule. Therefore, it makes sense to make the application of the SCP Tag as the RA compliance mechanism optional rather than mandatory. Some of the practical reasons include:

- Metered Subsystem ("MSS") Aggregator Agreement Treatment. At the November 18 stakeholder meeting, the CAISO appeared to indicate that a Load-Following MSS will not be required to have SCP Tags for RA purposes due to the RA requirements in both the CAISO Tariff and the MSS Agreement that may conflict with this requirement. This covers roughly half of CMUA members in the CAISO Balancing Authority Area in terms of numbers, and one-third of the load;

- Hydroelectric Resources. Significant hydroelectric resources are owned and/or operated by CMUA members and serve to meet CMUA-member RA requirements, and their operational characteristics must be respected by the CAISO pursuant to current RA rules and the CAISO Tariff;

- Trade Feature. CMUA members rarely, if ever, trade capacity from their own RA designated units;

- Liquidated Damages ("LD") Contracts. CMUA member LRAs have not uniformly eliminated or phased out the use of LD contracts, as is their right under the current RA rules;

- Counting Conventions for Certain Resources, Such as Renewables, Vary.

- Imports are a Significant Portion of CMUA-Member RA Capacity. This is fundamentally different than the system as a whole.

- Differing Treatment of Demand Response. LRAs may and do treat Demand Response differently for RA purposes.

Anecdotally, CMUA would estimate that the capacity resources to serve its members in the CAISO Balancing Authority Area that fall into one or more of the above-categories is above 90%.

At the November 18 stakeholder meeting, the CAISO stated that differences in counting rules would be homogenized by the NQC process. To CMUA, this does not alleviate the concerns raised above.

While CMUA members are not insensitive to CAISO's concerns regarding administrative burden, it would appear that maintaining the option to use the existing implementation system under either the current Tariff or MRTU Tariff rules would be a minimal burden. This is especially true given that the comparison of RA compliance is between the actual procurement of the Scheduling Coordinator ("SC") representing an LSE and the rules adopted by the applicable LRA.

<u>The Treatment of Load-Following Metered Subsystems Must be Clarified</u>

The Northern California Power Agency ("NCPA") operates within the CAISO Balancing Authority Area as the only Load-Following MSS Aggregator. CMUA is very concerned with the possible implications of the CAISO Straw Proposal on NCPA as a MSS Aggregator, and further because the MSS concept was designed as a mechanism to allow operation of vertically integrated systems in the CAISO Balancing Authority Area.

CMUA understands that the CAISO will be clarifying the treatment of load-following entities in its next Proposal. This issue is key to many CMUA members that plan and operate their systems under this paradigm. The MSSA construct is a carefully balanced set of obligations and responsibilities on the part of both the load-following entity and the CAISO, and a Must-Offer obligation as part of the SCP Tag would undermine that balance. CMUA looks forward to the next iteration of the CAISO proposal for clarification that the MSSA construct will be recognized in SCP proposal.

<u>Performance Incentives</u>

Although there was considerable discussion on financial penalties at the stakeholder meeting, CMUA remains concerned that this would introduce needless complexity to the program at the initial rollout. CMUA is most concerned about potential credit ramifications. SCs are already wrestling with the credit implications of MRTU and examining credit policies. It is prudent to sort out credit under the base requirements of MRTU before adding additional policies that may involve new credit implications and burdens on SCs.

The Link to Ancillary Services Must Offer Obligation ("AS MOO") and Compensation for SCs Harmed by the AS MOO for Energy Substitution.

One component of the SCP Tag is the extension of the Must Offer requirement to both the Energy and Ancillary Services ("AS") markets. As noted above, the SCP Straw Proposal also proposes to make SCP Tags mandatory for POUs.

CMUA and its members have concerns with respect to this proposal. This proposal leaves open the real possibility that an Energy self-schedule may be reduced or eliminated in favor of Ancillary Service procurement by the CAISO. It is quite possible that the Energy and AS market prices will not converge either in times of scarcity or otherwise. As such, use of the self-scheduled unit in the AS market may expose the SC for the LSE to energy price risk, in contravention to the bid preference indicated by the Energy self-schedule. It may also lead to perverse incentives by failing to provide the right signals for LSEs to certify their units for the AS market.

This problem can be solved by either modifying this requirement to eliminate the ability of the CAISO to substitute AS for self-scheduled Energy, or alternatively, to create an uplift mechanism that will ensure that an SC that is harmed by the CAISO-dictated substitution is made whole.