

**CALIFORNIA ISO
FLEXIBLE RAMPING PRODUCTS**

**COMMENTS OF THE STAFF OF THE
CALIFORNIA PUBLIC UTILITIES COMMISSION
FOLLOWING THE OCTOBER 30 WORKSHOP
ON THE FERC ORDER 764 COMPLIANCE STRAW PROPOSAL**

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November 8, 2012

Overview

The Staff of the California Public Utilities Commission (the CPUC Staff) appreciates this opportunity to comment on the current status of the ISO's proposal for deploying new Flexible Ramping Products (FRP) within the overall electricity market design and operations, including the 15-minute scheduling reforms.

The CPUC Staff appreciates and supports the ISO's decision to delay finalization and implementation of FRP. This should permit better integration of FRP with broader market reforms associated with proposals for 15-minute scheduling (compliance with FERC Order 764) and an integrated day-ahead market (IDAM). As summarized below, the extension of time should enable clarification of certain remaining FRP issues, valuable additional analysis, and better assessments by market participants of potential FRP cost allocations that may require contracting adjustments.

- 1. CPUC Staff supports pricing real time (RT) FRP based on opportunity costs rather than bids, but continues to request clarification and verification regarding how FRP procurement would efficiently reflect resources' energy bids.***

During the course of FRP proposal development the CPUC Staff have expressed concerns regarding the role of FRP capacity bids, including how these bids interact with energy bids in the DA and RT markets, how the combination of energy and FRP bids would influence procurement and/or commitment of FRP resources, and how the above interactions may produce risk of economic inefficiency or market gaming. The ISO's latest proposal to price RT FRP based on opportunity costs rather than bids reduces some of these concerns. Still, the CPUC Staff requests that the ISO clarify and verify that the ultimate FRP design will avoid procuring FRP resources

(through either bids or opportunity costs) that have undesirably high energy bids. The ISO should also explain the reference to RT FRP bids starting at the bottom of page 16 in the October 23 FERC Order 764 compliance straw proposal, which appears to be inconsistent with the stated intent to not utilize FRP bids in the RT market.

2. ***The ISO should use the additional time before finalizing the FRP proposal to provide additional analyses and information subject to additional stakeholder discussions and comments.***

The Market Surveillance Committee (MSC) presentation at the October 19 MSC meeting provides several examples of the types of analyses that should be conducted. The ISO should specifically assess and report on how FRP could be improved based on analysis of Flexible Ramping Constraint (FRC) performance. In coming months the ISO should assess and discuss with stakeholders the implications for FRP of broader market reforms including 15 minute scheduling and the IDAM. The CAISO should also provide additional information on potential FRP costs and how the costs would be allocated, to allow market participants to perform proactive assessments of their cost exposures and to consider contracting adjustments before FRP are deployed.

To summarize, the CAISO should allow additional stakeholder discussion and comment when the FRP proposal is ultimately brought to completion for a FERC filing. This additional discussion and comment would benefit from better information on matters discussed above: the implications for FRP of broader reforms such as 15-minute scheduling; additional analyses of FRC performance; better market participant understanding of potential cost allocation exposures; and clarification of remaining FRP design questions such as regarding the role of energy bids in FRP procurement.

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