

Stakeholder Comments Template

Subject: Standard Capacity Product

Comments due COB Thursday 9/11/08

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The CAISO is requesting written comments on the *Standard Capacity Product Issue Paper* that was discussed at the September 3rd Conference Call. This template is offered as a guide for entities to submit comments; however participants are welcome to submit comments in any format. There is a section at the end of the document to comment on topics that may not be covered in this questionnaire.

All documents related to the Standard Capacity Product Initiative are posted on the CAISO Website at the following link:

<http://caiso.com/2030/2030a6e025550.html>

Upon completion of this template please submit (in MS Word) to scpm@caiso.com . Submissions are requested by close of business on Thursday, September 11, 2008.

Please submit your comments to the following questions in the spaces indicated. If you are offering proposals or recommendations, please provide the business justification or other rationale for your proposals, including illustrative examples wherever possible.

The CPUC staff thanks CAISO staff for initiating a stakeholder process to create a Standard Capacity Product (SCP). Furthermore, the CPUC staff appreciates the hard work and dedication of CAISO to help develop this tool in a short time frame. CPUC staff believes that a well designed SCP is critical for all market participants and continued

resource adequacy. CPUC staff appreciates the opportunity to comment on this issue and looks forward to working with CAISO staff and other stakeholders to develop the SCP.

SCP Overview

As a preliminary matter, it should be noted that CPUC staff support for the CAISO's SCP should not in any way, implicit or otherwise, be construed as a waiver of the CPUC's jurisdiction over Resource Adequacy. That said, the CAISO's SCP should be limited to performance obligations and penalties on generators to create efficiencies in the LRAs' RA programs; it should not be used to increase the burden on participants in RA programs or to interfere with the LRAs' RA programs. CPUC is not conceding or granting any authority over the CPUC's RA program to the CAISO.

The CPUC staff believes there are two items that are of critical importance and must be properly designed by the CAISO for the initial implementation of the SCP: well defined performance obligations and sufficiently strong penalties that deter nonperformance.

Though the CPUC staff generally supports the Joint Party Proposal filed last year at the CPUC,¹ it is important to note that these comments are the starting point for discussion regarding SCP. Additionally, there are near term and longer term issues, and that tags, a bulletin board, and a RA registry are longer term issues. Although these elements have merit and will likely provide benefits to market participants, these elements can wait until after the initial SCP release.

The CPUC staff comments below focus on the development of these performance obligations and nonperformance penalties. Focusing on these two elements is in the best interest of the stakeholders, and will provide the most immediate benefits for LRAs' RA programs. CPUC staff strongly believes that attempting to develop tags, a bulletin board, or a registry will create delays that will jeopardize a February FERC filing.

The CPUC staff is concerned that tags create a false need for complete uniformity for capacity that oversimplifies California's markets. In particular CPUC staff cautions that expenses associated with a tag-based SCP may unnecessarily increase costs for a variety of load and generation participants. Balancing the benefits of a CAISO-based set of performance obligations and penalties with the rights and obligations of LRAs relative to resource adequacy brings efficiency to the RA process by ensuring the CAISO's grid reliability needs are coordinated to as high a degree as possible with the LRAs' RA programs. This coordination limits the need for out of market capacity procurement at the CAISO or LRA level and minimizes duplication of effort and costs. Additionally, meeting the minimum obligations associated with a SCP should not preclude parties from transacting in a bilateral market or from adding additional features as agreed upon between the parties.

¹ This document can be found at <http://docs.cpuc.ca.gov/efile/REPORT/75397.pdf>

To avoid confusion, CPUC staff comments refer to specifications of performance and availability metrics that are applicable to capacity and quantified by the resource's Net Qualified Capacity (NQC) on the CAISO NQC list and do not refer to a tag based program or a registry.

One of the most important issues that must be addressed in the SCP stakeholder process is the degree of standardization that is required. For purposes of performance metrics, resources differ by fuel type, size, ramp rate, dispatchability, or other critical technology specific factors. Requiring a nuclear unit and a solar unit to meet the same performance standards as a dispatchable and easily ramped peaking unit is not realistic, and therefore, not advisable. Thus, some differentiation across classes of units, by NERC "peer groups" for example, is necessary. Though different flavors of a standardized product may need to be developed in the future to account for resources in different locations, pollution levels, or contractual limitations, the CPUC staff urges the CAISO not to focus on these issues for the initial SCP. CAISO should develop performance metrics and penalties that are specific to fuel type and technology, but the development of SCP that is of different flavors is not needed here; the current RA program accomplishes that distinction.

1. Slide 8 of the "Review of the Standard Resource Adequacy Capacity Product Issue Paper" presentation (<http://caiso.com/2030/2030a6e025550.html>) provides an overview of the SCP in the RA Process. Do you agree with this characterization? If not, how would you modify it?

1. CAISO assigns SCP "tags" to eligible RA capacity Quantity depends on resource's NQC

Currently, RA capacity is registered by its inclusion on the NQC list maintained by the CAISO; NQC is based on Qualifying Capacity (QC) counting conventions determined by the LRAs. Anything more than the current NQC process, such as the assignment of "tags" or creation of a RA registry, is not essential for the initial offering of a SCP, and the CPUC staff opposes the development of these features at this time. However, in addition to applying deliverability tests to QC, the CAISO could also consider applying a metric of minimum performance prior to registration on the NQC list.

2. Parties buy and sell SCP tags in 1) Bilateral transactions or 2) Centralized Capacity Market (CCM)

LSEs are currently required to buy and sell RA capacity in a bilateral market and demonstrate compliance with the RA obligations as required by their LRA. In defining performance and penalty mechanisms for generators, emphasis must be placed on creating a set of obligations that can apply regardless of market structure. Once that is done, all traded capacity can be contractually bound by the CAISO tariff provisions that describe the performance and availability metrics the SCP process creates and adopts.

3. Use of SCP tags to meet RA requirements

In the near term, CPUC staff envisions that the current mechanism of monthly LSE filing and generator supply plans will be maintained, and not done via a RA registry or other means.

4. Ensuring performance of RA capacity

Performance and availability penalties that apply to generators, not LSEs, are the core of the proposal and should be developed expeditiously by CAISO. Much work must be done in this area to properly design the SCP.

Roles and Responsibilities

2. What is the dividing line between the obligations of suppliers of RA capacity and those of the LSEs? Does the LSE's responsibility end with its submission of SCP tags to meet its RA requirements, or would there be circumstances where a supplier's failure to deliver required some action on the part of the LSE whose submitted RA capacity is affected?

The responsibility of the LSE is to file with their LRA, demonstrating that its resource adequacy requirement has been met with capacity procurement. The LSE's responsibility, as envisioned currently, ends with the submission of the RA filing. Suppliers are verified by inclusion in the NQC list, and the LSE can purchase and submit any resource that is on the NQC list for that year. Under the SCP, LSEs would contract for a capacity resource. Once contracted the resource would become subject to the CAISO tariff's performance and availability obligations. After that, the CAISO would enforce performance obligations on generators. The CAISO may decide that replacement capacity is needed when suppliers are unable to deliver RA capacity for the remainder of the contracted timeframe. By placing the responsibility of procuring replacement capacity on the generators the program is sufficiently flexible to allow the SCP to function well in either a bilateral or centralized capacity market.

Obligations of RA Capacity

3. What is required of the RA capacity or supplier within the delivery period? In particular, what modifications to the existing RA-MOO are needed? Do parties agree that RA capacity must be available to provide Ancillary Services to the extent they are certified? What other obligations need to be specified in the RA-MOO?

The CPUC staff believes the current RA obligation to offer energy day-ahead, or in real time, if not on forced outage is inadequate. The CAISO should oversee a performance obligation that contains penalties focused on generator nonperformance.

The AS MOO is not currently part of the SCP definition, nor is it part of the CPUC's RA requirement. If the CAISO wishes to have the CPUC define the CPUC RA requirement in such a way that includes an AS MOO, then they may participate in Phase 2 of CPUC proceeding R.08-01-025 and request the CPUC to make the necessary changes.

The AS MOO may be appropriate but full analysis of the effects on energy, AS, and capacity markets should be studied before expanding the CPUC RA MOO to require an AS MOO. CAISO must be explicit about what an AS MOO will require of RA units.

For example, what AS products will be subject to the AS MOO and would this apply to all capacity regardless of LRA?

4. How standard is standard? How does a “standard” product deal with details like Local Capacity Requirements (LCR)? Use limitations? Non-standard generation, such as demand response or pumped storage hydro? Are there other flavors of the SCP that need to be defined?

As stated above, to expedite the creation of the SCP, the CAISO should focus on performance metrics, not other aspects of SCP “flavor”. Flavors of capacity product are distinct from different performance metrics. The performance metric that will be developed in this stakeholder process should only focus on differences related to technology type and fuel, not the flavors that come about from factors such as location and vintage. GADS peer groups may serve as a guide to develop performance metrics and applications to classes of generators. However, the number of peer groups should be minimized to maintain the integrity of the SCP. Currently, CPUC staff has identified Use Limited Resources, Intermittent and/or Non-dispatchable Renewable Resources, and Demand Response (DR) resources as resource types that might warrant special consideration for the development of performance criteria.

The need for special DR consideration stems from CAISO’s proposal for a variety of different types of DR resources. DR’s unique ability to be situated within a constrained load pocket and able to respond quickly to CAISO’s needs makes DR a unique system asset. Thus, DR has the potential to provide large reliability benefits to CAISO, particularly in locally constrained areas. The increased value of local RA will be reflected in RA payments made to those DR participants that are capable of meeting local RA needs in constrained load pockets. However, under CAISO’s proposed DR market structure, DR resources will be differentiated based on if the resource is Non-participating Load, Proxy Demand Response, or Participating Load. While DR resources that report as Proxy Demand Response or Participating load will report like a generator at either an injection node or an aggregation of a few nodes, initially most DR resources will report as Non-participating load. Non-participating load will report at the default LAP or by UDC territory, which misstates the value of this type of DR. The ability of DR resources to report as a local RA resources provides an added value stream and necessary incentive to transition DR resources to more a distinctive and geographically detailed reporting capability. Therefore, DR resources should be able to participate in the SCP, but will need special consideration to address the different types of DR resources.

Facilitating Procurement, Registration & Compliance Showings

5. Stakeholders have suggested that the scope should include a bulletin board to facilitate transactions.
 - a. What do parties envision as the scope and functionality of such a bulletin board?

A bulletin board should include information that market participants believe is of value.

- b. Is this element essential to getting the SCP up and running? Could the SCP function without it? Can this element be deferred until a later time? Could it be developed by a third party?

CPUC staff does not believe this element is essential for the initial creation of a SCP. The bulletin board can be deferred until later when there is time to develop more functionality. Also, a bulletin board could possibly be developed by a third party for future enhancements to the initial SCP.

6. What is the preferred vehicle for transferring capacity tags between parties?
- a. Should a confirmation letter be used to procure RA capacity? If so, what should be the form and standard content of such confirmation letter?

The CPUC only requires a mechanism to verify that the RA obligation has been met; from the perspective of RA compliance, a standardized confirmation letter is not needed. LSEs could have trouble standardizing all their procurement to the same confirmation letter. For example, will a confirmation letter differ if the contract is for RA and energy, or if the facility is utility owned generation? This matter requires further exploration.

- b. If not, what is the preferred vehicle for transferring SCP tags between parties?

Parties are free to determine the means of transferring capacity as long as LRAs receive all information in a time and manner that enables the LRAs to sufficiently ensure that their LSEs have met their RA obligations. To maintain an SCP that can operate in either a bilateral or centralized RA market setting, the mechanism of transferring capacity between parties must be flexible enough to ensure that bilateral contracting is not unduly constrained. The CPUC staff emphasizes that RA compliance is within the purview of LRAs and that the CAISO's SCP should not interfere with the LRAs' administration of RA mechanisms.

- c. Is this element crucial for the initial filing

No

7. Is an electronic RA Registry essential to the SCP effort, particularly if it may impact the ability to make a FERC filing in early 2009? Could the RA Registry be developed in a later phase?

CPUC staff agrees with Joint Parties that although a RA registry might be a good idea, it is not essential for first phase implementation of the SCP.

- a. What systems or infrastructure are needed or desirable to (1) facilitate trading (2) track ownership (3) enable registration of SCP tags? How can we meet such needs by a relatively simple interim approach for the near term, to be developed later into an end-state approach?

For the near term, retaining the current RA filings and supply plans is desirable. It is simple and already understood. Parties are free to study a bulletin board or registry for later phases of implementation that would help facilitate trading and ownership tracking, but the infrastructure needed to start a SCP is already in place.

- b. Is there a reason why an RA Registry is essential to prevent double-counting of RA capacity? The CAISO and CPUC have been validating RA capacity for

several years now to ensure that no double counting occurs. Is the current system sufficient?

There is no reason why a RA registry is essential to prevent double counting; the current system is sufficient.

If market rules are changed such that third parties are allowed to supply DR megawatts directly to the CAISO, then a system to validate and track DR programs will be needed.

8. What is required of the RA capacity or supplier prior to the delivery period? For example, should the CAISO assume continued use of current procedures such as submission of supply plans, or should alternatives or enhancements be considered within the scope of the SCP? If an RA Registry is created, does it need to include a level of sophistication that would allow the elimination of year-ahead and month-ahead showings and supply plans? Is this aspect of the RA Registry essential? There also is the reality that the CAISO requires supply plans from its SCs because it is the SCs with whom it has a contractual relationship; not the LSEs. RA resource data is currently validated through the supply plans and it is the supply plan information on RA capacity that is entered into and used in the CAISO operating systems. Also, will the CPUC be interested in departing from the current RA convention of year-ahead and month-ahead showings submitted directly to it by its jurisdictional entities? In essence, is it realistic to expect that an electronic mechanism can replace the current system of showings (both RA showings and supply plans)?

The incremental solution is to retain the current supply plan submissions and monthly RA filings; penalties would accrue to generators that submit false or late supply plans prior to the delivery period.

The RA Registry is not essential at this time, and should not delay the filing of Tariff language to FERC.

The CPUC staff is open to the idea of simplifying and streamlining the current system of monthly forecasts and showings. The CPUC's primary concern is carrying out the mandate to ensure resource adequacy as cost effectively as possible. At the current time CPUC staff does not see how a RA Registry system meets the needs of our jurisdictional obligation.

Performance Standards for RA Capacity

9. Do all stakeholders agree that all obligations for performance should be on the supplier? Are there certain circumstances where the LSE should be required to take some action, particularly if there is a long lead time in which to act?

The CPUC staff wishes to ensure that generators are incented to perform as required by CAISO tariff. The CPUC staff also encourages the CAISO to consider that contractual agreements with bilaterally procured capacity can allow parties to tailor contracts to their needs so long as the generator is still subject to the CAISO tariff for performance obligations and penalties. Thus while certain contract provisions between LSEs and generators may differ, contracts must include a clause that references CAISO performance provisions developed via the SCP stakeholder process. The RA supplier

should retain the responsibility and obligation to perform, and free the LSE of monitoring the performance of the RA supplier.

10. What challenges are posed by use-limited resources and demand response resources? What metrics will allow fair and reasonable treatment of these and all other types of resources?

As noted above in the response to question number 4, there may be a problem of applying standard performance obligations across resource types, including use-limited resources and DR. Different performance and availability standards may need to be developed for RA resources that provide value but are not dispatchable or are available for limited hours. For example it would not be beneficial to the program to apply a single 720 hour/month obligation to a solar resource, which is available at peak hours, but only 300 hours/month.

The CPUC's Load impact protocols should be used as the metric for DR resources and parties can seek consensus on metrics to use for other resource types.

11. How shall an outage be defined for purposes of calculating availability metrics? What is an acceptable forced outage rate? Should it vary by technology type?

In developing the appropriate metrics, the CAISO should consider forced outage and availability metrics that are available to the CAISO such as data in SLIC or the NERC GADS database. However, this issue merits further study as performance metrics should also vary by peer group. The CAISO may wish to further study how proposed metrics and thresholds reflect the performance of current resources.

While the performance standards section suggests a measure which would penalize resources that are available at less than 50 or 80%, the SCP does not yet include a measure of unavailability such as a forced outage metric, which the Commission contemplated for a Standard Capacity Product in D.06-07-031. The CAISO should also determine a penalty threshold that provides sufficient incentives for improving or maintaining generator performance. At an availability threshold of 50 or 80%, it is likely that few penalties will be incurred by fossil fueled resources.

CPUC staff understands the appeal of the suggested availability metric: it is a basic, simple performance measure to implement in a beginning phase of the SCP. However, the very simple nature of the measure means that it not a robust, precise, or well-developed metric that allows the CAISO to track the performance of RA resources during the hours of demand.

The CPUC has not determined an acceptable forced outage rate. If all resources are held to the obligation they are selling, the resource owner, who is in the best position to limit outages, bears the risk of non-performance rather than load.

12. Should availability factors be broken out and standards developed for specific classes of resources to reflect their unique operating characteristics, i.e., combustion turbine, hydroelectric, demand response, wind, solar?

Please refer to the responses to questions 4 and 10. Though CPUC staff recognizes the need to address a small subset of resources in a specialized manner, staff does not wish to create too many specific classes of resources.

13. What are the criteria which would trigger procurement of replacement capacity to replace RA capacity that does not or cannot perform sufficiently, as opposed to relying on the margin built into Planning Reserve Margin-based (PRM) RA requirements?

As is the case with the ICPM mechanism, aggregate deficiency should be the trigger to procure replacement capacity. To the extent possible, the SCP must be designed to minimize the use of back stop procurement and limit reliance on mechanisms like ICPM and Exceptional Dispatch.

- a. Should the “forced is forced” principle be continued as is, or is some modification needed in conjunction with the SCP proposal?

The LSE should not be required to replace capacity on a forced outage, but the generator should be penalized for forced outages. No additional modifications to CPUC rules are needed.

- b. How should costs of replacement capacity be allocated?

Replacement costs should be allocated to generators that fail to perform and should be added to penalties the CAISO would already be imposing for nonperformance.

14. When, if ever, should insufficient performance by RA capacity have an impact on the LSE that submitted the capacity to meet its RA requirements? For example, in the context of the current monthly RA model, suppose an RA resource is suddenly forced out and will be out for three months of its contracted delivery period. Should the LSE that submitted that resource be required to obtain replacement capacity by the next monthly showing?

The “forced is forced” principal was established to limit risk to LSEs who may have little control over the performance of resources available in the capacity market. The current program limits this risk protection to one year. The CPUC staff does not see sufficient reason to change this policy.

Penalties & Other Corrective Actions

15. What are the different functions and incentive effects of financial penalties vs. adjustments to NQC?

NQC counting rules are the domain of LRAs, not the CAISO. It is easier to adopt straight forward financial penalties in the tariff, than to modify the NQC counting rules through coordination with the LRAs.

Assessing performance penalties through adjustments to NQC delays the effect of the penalty. Resource owners do not receive an immediate penalty, but receive reduced revenues in future periods. There is research supporting improved effectiveness of immediate penalties over delayed penalties.

In addition, assessing performance penalties through the NQC distorts the program. The purpose of the NQC is to accurately identify the productive capability of a resource to ensure the correct amount of capacity is procured to meet reliability standards. Adjusting the NQC of resources based on past performance creates a lower NQC than the

resource's current actual capability. This is especially true if the penalty program successfully incents the resource owner to correct reasons performance failure. Thus if performance failures are reflected in the NQC, load will purchase more capacity than is actually needed.

On the other hand, financial penalties for performance failures are immediate and do not shift costs to load because of failures of resources.

Therefore, penalties should be strictly financial so that NQC figures reflect the generating capacity of a unit when it is operating.

16. To what degree and under what circumstances should the adjustment of NQC of a resource occur?

For the reasoning indicated in response question 15 above, NQC adjustments should only be made on the basis of a change in the unit's capacity as measured by the applicable NQC counting rules as determined by the LRA.

17. How might seasonal penalty rates be applied to ensure a very high incentive for resources to perform in high demand periods?

One incentive to ensure performance is to impose a nonperformance penalty that would include purchase price of replacement capacity and/or energy. The CPUC staff has no objection to seasonal variation in strictly punitive penalties. In fact, in the CPUC's January 18, 2008 report on long term RA,² the CPUC staff suggests that capacity seasons (aka less than full year) products may be helpful for a variety of reasons. It would be helpful for the CAISO to recognize that penalties and other corrective actions should be able to vary depending on the ultimate structure of the LRAs' RA program including the possibility of a non-annual capacity product.

Credit Requirements

18. What credit requirements should apply to RA suppliers vs. Scheduling Coordinators for RA capacity?

Credit requirements should not be determined by the SCP at this time. The SCP is a product traded bilaterally and the credit requirements can remain up to the parties to the RA contract. In a future stakeholder process, credit requirements can be included to help reduce transaction costs. One possible solution is that a credit requirement could be part of a generator's PGA.

19. What is correct method for calculating the optimal credit requirement?

CPUC staff is still evaluating various options for determining an optimal credit requirement and will provide comments as soon as a decision has been reached.

20. Should the credit requirement required for the SCP stand alone or should the liability associated with this product be netted against the overall Accounts Receivable/Accounts Payable (AR/AP) of the SC associated with the RA supplier?

² <ftp://ftp.cpuc.ca.gov/puc/hottopics/1energy/r0512013MarketStructure.PDF>

CPUC staff is still evaluating this matter and will provide comments as soon as a decision has been reached.

Implementation Details

21. Given that an early 2009 tariff filing with FERC is the working target to enable parties to begin RA capacity negotiations based on the SCP as early as possible, what elements of the SCP must be in place to meet both the commercial and the reliability objectives of the SCP by the desired target?

- a. Which elements are crucial for the initial filing?

The initial filing should contain only two items: generator obligations and performance penalties. Both generator obligations and performance penalties should be included in the CAISO tariff so that all generator enforcement can be achieved directly through the CAISO tariff while LRAs must only enforce RA procurement on LSEs.

- b. What additional elements can be resolved in time for an early 2009 FERC filing?

At this time, CPUC staff does not see any of the other CAISO proposed elements as essential for the initial implementation of a SCP.

- c. Which elements can wait for a subsequent FERC filing?

Other elements including a bulletin board, registration system, credit requirements, or any “flavors” should be addressed in a subsequent FERC filing and as part of a second stage of implementation.

- d. Should this be a staged or phased implementation with planned enhancements in future filings?

CPUC staff believes that a staged approach is appropriate. The first stage would focus on performance obligations and penalties for nonperformance, while a second stage could focus on the implementation of nonessential SCP elements. In addition, it may be difficult to reach agreement on performance standards for intermittent, as-available, and limited use resources. In order to file tariff language at FERC by early 2009, CAISO may need to consider moving forward with performance standards for some but not all types of resources.

22. Assuming the SCP proposal is filed and approved by FERC in spring 2009, should the SCP take effect immediately for use in the monthly RA showings for the remainder of 2009, or only come into play for RA capacity procured for delivery in 2010?

LSEs are already procuring capacity for 2009 and will make preliminary showings to the CPUC on September 19, 2008. It is impractical to require changes to these contracts in 2009. The SCP should be required for the first showing for the 2010 compliance year.

23. The CAISO understands that the end-state vision for the SCP is that it will apply to 100% of the capacity procured to meet RA requirements. Can the SCP definition be applied to 100% of RA Capacity from the start? Is there a need for a transition period to a full implementation of SCP (i.e., short-term “grandfathering” of some existing RA capacity)?

- a. If a transition period is needed what is the rationale for it and how should it be defined?

A transition period is needed for two key reasons. First, entities that have been directed by the CPUC to procure long-term RA contracts should not have the cost of those contracts wasted by a change in rules. Second, provisions in the SCP that differ from existing contracts may create undue takings from parties to the contracts.

- b. What criteria should be used to define categories of RA resources eligible for grandfathering during the transition period? What shares of RA capacity do these categories represent, and what are the practical implications – e.g., any relaxation of performance obligations, reduction in tradability, impacts on existing supply contracts – of allowing them to be grandfathered?

CAISO should explore how, or whether, placing performance criteria on participating generators affects existing contracts. Some contracts may already account for the possibility of a CAISO administered performance program.

Only resources procured before October 31, 2008 should be eligible for grandfathering. For CPUC jurisdictional LSEs, this is a natural breakpoint because of the 2009 year-ahead filing date; CPUC staff does not anticipate significant long-term RA procurement for jurisdictional entities between the year-ahead filing and the CAISO submitting the SCP tariff to FERC.

Contracts entered into by the Department of Water Resources should also be grandfathered.

A large amount of future RA requirements may be met with long-term contracts or utility owned resources that would qualify for grandfathering. This may be a significant issue; although grandfathering will reduce tradability, utility owned generation or long term contracts that also include energy delivery will already have performance metrics. There would not be any relaxation of performance obligations relative to the current program.

24. What change management provisions need to be incorporated into the SCP proposal? Besides specifying the provisions for a transition period, if one is determined to be needed, what other change management scenarios must be considered?

CAISO should acknowledge that capacity contracted via long term contracting should not be exposed to performance obligations that were not envisioned while that contracting occurred. Similarly, on a forward going basis, CAISO should implement a mechanism, such as a grandfathering clause or a mechanism that recognizes vintages of RA, that is designed to minimize any risk premium associated with changes in an SCP over time that may apply to long term contracts for capacity and/or discourage long term contracting by increasing risk premiums associated with changes of law. CAISO should also consider requiring any RA contract of a grandfathered vintage that is traded between LSEs to reflect the current vintage SCP requirements.

25. Assignment of SCP tags to eligible RA Capacity
 - a. Should the SCP simply take the existing counting rules and NQC determination process as given, or are there issues with these existing features of the RA process that need to be addressed in conjunction with the SCP? For example, if different

flavors of the SCP have different performance requirements, how can we ensure that simply adding up the pre-determined quantity of SCP tags will result in achieving the desired level of overall system reliability?

As stated above, QC determination is within the domain of LRAs and should be taken as a given by the SCP. If SCP tags are utilized in a later implementation stage, then there should be a one-to-one relationship between the number of tags a generator can supply and the amount of NQC for which a generator is certified.

Development of the tag concept is not a near term need, and would be useful primarily with a RA registry. Tags make it difficult to assign to a particular resource upon reselling, and also create confusion with different contract types (RA only, tolling agreements, UOG, RPS contracts, etc). This piece might be delayed to future phases of implementation, but with that said, comments on specific points are added below.

- b. Are there other factors besides the counting rules, testing of maximum operating capacity, deliverability assessment, and performance criteria that should figure in the calculation of a resource's MW tag quantity? If so please describe.

In deference to the LRAs' rights and obligations, some coordination between category or resource type may be appropriate relative to capacity value of a resource. If the CAISO wants to create different Net calculations (as part of the NQC process) it should recognize the LRAs' rights in that process as well as make performance criteria generally applicable to peer group rather than CAISO's measurement of reliability separate from the NQC process.

- c. Can we equate the quantity of tags for a resource to its NQC, or is there a need to maintain a distinction between these two terms?

A weakness in the current RA program is the failure to adequately recognize the operational limitations of resources. This includes number of starts, air resource permit limits, water permits, minimum load limits, etc. For these reasons, use of tags could create operational problems for the CAISO. CPUC staff generally does not support tags, but if tags are adopted the number of tags should be equal to the NQC set by the LRA.

- d. What is the duration of a tag? Are tags issued anew each year with a one-year term? Or are tags permanent once they are acquired by a resource? If the latter, must a resource that retires or has its NQC reduced in a subsequent year buy back all or some of its outstanding tags? Can NQC be reduced within a given delivery year based on supplier performance?

Due to current RA Filing requirements both at the LRA level and in the CAISO tariff, tags and NQC should not extend past one year. Some, and possibly all, resources will soon have specific monthly values, which take into account their performance at different times of the year. The reevaluation of the NQC values for a resource is currently an annual process, so the SCP should start by using the same time horizon. It is particularly important to apply this one year horizon to DR resources because DR resource participation can vary greatly from year to year in both quantity and location. Any changes to the NQC process would require a change to this SCP tariff to ensure compatibility.

- e. How are tags assigned to new capacity investment prior to construction or commercial operation?

Tags should be assigned to new capacity according to applicable NQC rules as determined by CPUC and other LRAs.

Other Comments: