

# Comments on Frequency Response Draft Final Proposal

Department of Market Monitoring

February 24, 2016

The Department of Market Monitoring (DMM) appreciates the opportunity to provide comments on the Frequency Response Draft Final Proposal.

With some caveats discussed below, DMM supports the ISO's proposal to implement an interim solution to meet a December 1, 2016 start date for compliance with new frequency response requirements. DMM supports continuing the stakeholder process in a second phase in order to develop a better long-term solution.

As an interim solution, the ISO proposes to pay to transfer its frequency response obligations to an external balancing area. As long as the solicitation process is competitive, this appears to be a reasonable interim solution. However, it is not clear how competitive the offers will be from other balancing areas.

Therefore, the ISO should maintain the flexibility to not pay to transfer its frequency response obligations, and potentially incur the violation penalty or pursue other options, if the solicitation process does not result in competitive and reasonable offer prices.

The ISO also proposes to clarify its authority to designate any reserve as *contingency only*. This designation prevents reserve capacity from being converted to energy by the optimization in situations when converting reserve capacity to energy could be the most efficient use of the capacity. Designating reserves as *contingency only* can therefore have adverse effects on energy and ancillary service market prices, and limit profit opportunities for resources designated as *contingency only*. We encourage the ISO to consider these efficiency costs when designating additional reserves as *contingency only*.