

Comments on the Draft Final Proposal for Generated Bids and Outage Reporting for Non-Resource Specific Resource Adequacy Resources

CAISO Department of Market Monitoring
May 27, 2010

The CAISO Department of Market Monitoring (DMM) supports the ISO's draft final proposal for the "Generated Bids and Outage Reporting for Non-Resource Specific Resource Adequacy" market initiative. The ISO's ability to create bids for Resource Adequacy (RA) import resources in the event they are not submitted by a market participant is an important aspect of the ISO markets that will help ensure the availability of imports that provide RA capacity.

The draft final proposal also proposes a significant change to the RA requirements for internal generating units – changing their "must-offer" requirement from all hours of the month to only the hours for which they are contracted to provide RA capacity. While this could make the RA program more efficient, the ISO will have to closely review and evaluate the impacts of its implementation as it has the potential for undesirable side-effects. DMM recommends that the ISO designate a business unit that is responsible for reviewing and evaluating its impact with respect to the following items:

- **Adequacy of RA Capacity in Off-Peak Hours:** The CPUC's criteria for resources counted towards load serving entities' RA obligation include several categories defined by the number of hours in a month a resource is available (e.g. 60 hours, 160 hours, 384 hours, or all hours). LSEs are only allowed to have a limited percentage of their RA resources in the categories that include less than all of the hours in a month. These "partial-hour" categories were intended to account for use-limited resources and peak hour energy contracts. These categories were created to allow load serving entities to meet their peak demand while not over-procuring capacity for off-peak hours.

Nevertheless, the ISO can experience very high loads in hours that are not considered standard peak hours (e.g. very hot weekend days), or it can experience tight supply due to outages or unexpected grid conditions. With the implementation of this partial-hour must-offer requirement, all RA generators will not have to be offered into the ISO markets in these off-peak hours. As the ISO has acknowledged, the implementation of this new partial hour must-offer requirement should be evaluated on an ongoing basis to quickly detect any impacts on reliability or the ISO markets.

- **Increased ICPM Commitments:** Another potential impact of the proposed relaxation of the must-offer requirement is an increase in generating units committed under the interim capacity procurement mechanism (ICPM). A partial-hour RA generating unit that currently would not receive an ICPM payment if exceptionally dispatched outside its RA contracted hours, would, after this change, receive an ICPM payment if exceptionally dispatched outside of these hours. For example, this could happen if a unit with only a peak hour RA contract was exceptionally dispatched to stay on in the evening hours, or was started-up on a weekend or holiday.

Finally, the ICPM tariff provisions currently only account for designating a portion of the capacity of a resource as ICPM, but do not contemplate designating a resource as ICPM for just a portion of the hours in a month. This will need to be addressed in the current stakeholder process for replacing the ICPM tariff provisions.

- **RA Capacity in Specific Hours:** The CPUC's criteria for partial-hour RA resources define various categories by the number of hours the resource is available in a month, but do not explicitly define the specific hours of the day that must be included in an RA contract. Therefore, if the ISO recognizes partial-hour RA, it is conceivable that LSEs could attempt to minimize RA costs by entering into RA contracts that do not include or limit peak hour availability.

Moreover, the ISO proposes to not apply the standard capacity product availability incentive to an RA resource's availability outside of its contract hours. This may provide an additional incentive to minimize contracting for RA capacity during those hours, despite that the availability incentive hours are presumably the hours when it is most important for the ISO to have RA capacity.¹ Thus, DMM recommends that as part of the annual and monthly RA review process, the ISO continually review the actual hours for which load-serving entities contract for RA capacity and coordinate with the CPUC (and other local regulatory agencies) to develop more explicit criteria for the partial-hour categories if problems develop.

¹ The availability assessment hours are HE 14-18 from April through October and HE 17-21 in the other months.