

Stakeholder Comments Template

RI Phase 2 – Day-of Market 7/6/11 Initial Straw Proposal

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the RI Phase 2 – Day-of Market 7/6/11 Initial Straw Proposal posted on July 6, 2011, and issues discussed during the stakeholder meeting on July 11, 2011.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to phase2ri@caiso.com no later than the close of business on July 29, 2011.

1. Please provide any comments on the ISO’s proposed schedule, timeline, or process for this stakeholder process.

No comment at this time.

2. Are there additional goals or operational challenges that the ISO should be addressing through this stakeholder process?

No comment at this time.

3. Please indicate whether your organization agrees with the guiding principles listed in the straw proposal. If not, please indicate why not. If you would like to have other guiding principles added, please describe those additional principles.

NCPA believes that the Transparent principle should be amended, or an additional principle should be added to the initial straw proposal to address cost allocation. NCPA strongly believes that any new costs resulting from variable energy resource integration should be allocated to market participants, including generators, based on cost causation principles. The CAISO’s transparent principle states “the ISO market relies on price signals to incent participant behaviors that align with ISO operating needs.” Clear market signals can also be driven by cost allocation methods; therefore allocating variable energy resource

integration costs to market participants based on cost causative principles will also incent market participants to reduce the operational burden placed on CAISO, including but not limited to, incenting variable energy resources to develop technologies that are better able to manage variability and reduce impacts on grid operations. Even though much of the variable energy resource capacity development is driven by state and local policy, direct and indirect costs resulting from such policies should not be socialized to all loads. A number of Load Serving Entities, including many NCPA members, have already made significant investments in renewable energy development and are already close to, or have, met their respective renewable portfolio requirements. It is not appropriate to saddle these Load Serving Entities with an additional share of socialized costs resulting from the integration of variable energy resources for the benefit of other market participants.

4. Please provide your organization's views on any incremental ancillary services you believe are necessary to accommodate the intermittency of renewable resources.

Subject to further development of the details, the Real Time Imbalance Service described by CAISO should improve the CAISO's ability to accommodate and respond to the intermittency of renewable resources. Pending further development of these concepts, the combination of Non-Spinning, Spinning, Real Time Imbalance Service and Regulation Ancillary Services could provide the CAISO with operational tools useful for managing variable energy resources. NCPA is not convinced that development of Inertia or Frequency Response products is necessary or desirable at this time.

5. Does your organization believe that Residual Unit Commitment should be performed more granularly than daily (i.e. on-demand RUC)? Is on-demand RUC needed if the 15 minute unit commitment, either in RTED (Option A) or RTPD (Option B) looks forward 8-10 hours?

No comment on this topic, more development of the On-Demand RUC concept is required.

6. Please provide your organization's views on replacing today's Hour Ahead Scheduling Process (HASP) for inter-ties with a simpler method that would not involve establishing separate hourly prices for the inter-ties and that would not include bid cost recovery. Please suggest proposals concerning what accommodations are necessary at the inter-ties to provide scheduling flexibility for western market entities.

It is clear that the current HASP market structure creates market inefficiencies (e.g. significant Real-Time Imbalance Energy Cost uplifts) and refinements are required. As long as the inter-ties are scheduled and settled on a timeframe that is different from internal schedules and settlement, there will continue to be

pricing issues at the inter-ties. Either Option A or Option B proposed by CAISO include the ability to submit schedules at the inter-ties closer to the operating interval (up to 30 min. prior to the operating interval). This could increase flexibility for market participants to manage their respective portfolios, and provide CAISO with more flexibility to manage changes in supply and demand. In general, NCPA believes these concepts would benefit the market, but both proposals are highly dependent on increased scheduling flexibility throughout the western markets. CAISO is highly dependent on imports, so this integration issue is very important. The assumption that other western markets will adjust their scheduling timelines consistent with CAISO's proposed timeline initiative may not be realistic. Simply eliminating the HASP prior to coordinated implementation of an intra-hour inter-tie scheduling process could lead to even more complications. If the scheduling timelines of other western markets do not evolve consistent with the timeline proposed by the CAISO, NCPA believes that changes to the HASP to increase price consistency and certainty should be considered to address the known structural problems. Further discussion of this issue is required.

7. Does your organization prefer a two settlement market or a three settlement market? Please describe why.

Pending further discussion regarding refinements to HASP, NCPA currently prefers a two settlement market. NCPA prefers a two settlement market for many of the same reasons stated by CAISO. Introducing a third settlement process would increase market complexity, and would result in significant costs for both CAISO and market participants to modify existing market systems and software.

8. Please provide your organization's feedback on the concept of a 1 minute Real Time Imbalance Service (RTIS).
 - a. Does your organization agree that with RTIS, regulation should be changed to a bi-directional service?

There is insufficient information regarding the details of RTIS to definitively answer this question, but NCPA has concerns with CAISO's proposal to modify regulation to be a bi-directional service. Such change may result in less regulation being offered to the market from use-limited and/or operationally constrained resources. For example, a hydro facility with limited pond storage and/or operating limits may at any point in time be able to offer either regulation up or regulation down, but may not be able to offer both regulation up and regulation down simultaneously. If regulation were changed to be a bi-directional service, a use-limited and/or operationally constrained resource may not be able to offer any form of regulation due to a bi-directional constraint; whereas if regulation was still procured as two separate directional products, the resource could

likely still offer capacity to the market reflecting the capability of operating in one defined direction (either up or down). At a minimum, if regulation is modified to be a bi-directional service the CAISO software should be designed to allow a use-limited or operationally constrained resource to communicate to CAISO its desire to only provide regulation up or down service to increase the pool of resource able to provide regulation service (e.g. a directional 'flag' could be implemented under which a service could be selected).

- b. Is one minute the correct dispatch interval for RTIS?

NCPA believes more discussion regarding the granularity of RTIS procurement would be beneficial.

- c. How should RTIS be bid, selected, and dispatched? Should a mileage bid be used for dispatch with a market clearing mileage price determined each minute?

As discussed by CAISO in the initial straw proposal, CAISO anticipates that some resources will prefer to be used for balancing often and receive the mileage compensation for the net energy provided under RTIS, while other units will prefer to receive the capacity payment for standing by to provide grid support, but would rather not have the unit moved unless required. NCPA agrees that this is the case. NCPA supports developing a process where a Scheduling Coordinator can 'flag' their RTIS bid to indicate its willingness to have the resource moved, and similarly to 'flag' its election to provide a contingency only type service. This is consistent with CAISO's current process used for procuring Operating Reserves. This type of functionality will increase the pool of resources capable of supplying RTIS. This functionality is particularly important for Use-Limited resources, which can provide the service when required, such as during a contingency or other defined system condition, but due to fuel and/or emissions limitations would be unable to provide RTIS if operated on a frequent basis. Compensation based on a separate and distinct capacity and mileage payment should make this design equitable because those units which select to be moved more frequently would receive greater compensation via the mileage payment.

- d. Does your organization's opinion on RTIS differ depending on whether Option A or Option B is chosen?

Based on the information that is available at this time, NCPA's opinion on RTIS does not differ depending on whether Option A or Option B is chosen.

9. Please comment on your organization’s preference for Option A or Option B with regard to the real time market. If neither option is feasible in your view, please provide input on how the real time market should be configured.

Based on its preliminary review, NCPA prefers Option A. NCPA's preliminary support of Option A is based on the assumed efficiencies gained by simultaneous co-optimization of Energy, Ancillary Services and Unit Commitment, and the simplification inherent in a 15 minute dispatch.

- a. Would 15 minute real time prices enable price responsive demand or demand response?

Yes, NCPA believes that 15 minute real time prices would be sufficient to enable price responsive demand or demand response. There are many practical limitations associated with responding to price signals every five (5) minutes.

- b. In Option A, with 15 minute RTED, what is your organization’s opinion about a 10 minute ramp period?

No comment at this time.

10. How often should renewable resources be allowed to schedule?

- a. In Option A does every 15 minutes make sense?

Yes, 15 minutes seems reasonable on its face, but more discussion on this topic is required.

- b. In Option B should renewable generation be able to schedule every 5 minutes, 15 minutes, or some other time interval?

Submitting schedule changes for renewable generation every five (5) minute does not appear to be practical or manageable.

- c. Does it make sense to limit this scheduling opportunity to only renewable resources, or should it apply more generally? Who should be able to schedule more granularly than hourly?

NCPA prefers not to establish rules that treat resource technologies differently, or that give a particular technology an advantage, but further discussion of Option A and Option B is required to answer this question.

11. Please provide any other comments your organization would like the CAISO to consider through this initiative.

None at this time.