A PUBLIC AGENCY
NCPA
NORTHERN CALIFORNIA POWER AGENCY

651 Commerce Drive
Roseville, CA 95678

phone (916) 781-3636
fax (916) 783-7693
web www.ncpa.com

NCPA Comments on CAISO Straw Proposal
Standard Capacity Product II

February 2, 2010

The Northern California Power Agency ("NCPA") is pleased to have the opportunity to submit these comments on CAISO's Standard Capacity Product II ("SCP II") Straw Proposal, dated January 19, 2010.

When introduced, the SCP II market initiative was focused on the extension of Standard Capacity Product ("SCP") availability requirements to Resource Adequacy resources whose qualifying capacity value is determined by the CPUC or a Local Regulatory Authority ("LRA") using historical output that has not been adjusted to correct for the possible double-counting of outages. Typically this type of Resource Adequacy capacity is provided by wind, solar, non-dispatchable cogeneration, non-dispatchable biomass and non-dispatchable geothermal generation facilities. NCPA takes no position regarding this element of the straw proposal at this time.

NCPA is concerned however with a new element of the proposal that has been added, at least conceptually, to the January 19, 2010 draft. Specifically, NCPA does not believe that Section 4.3 (Elimination of the CPUC's "Replacement Rule") of the CAISO SCP II straw proposal is a required element or beneficial for this market initiative. NCPA feels that such concept is Out of Scope, and is not relevant to the original intent of this market initiative. NCPA's members, who are not CPUC jurisdictional, have established Resource Adequacy Programs and requirements that are distinct from the CPUC Resource Adequacy program, and such programs should not be negatively impacted by decisions made through the CPUC regulatory process. As NCPA understands the concept, the SCP availability requirement/measurement would now include planned outages in the calculation of availability. This will generate the need for owners of Resource Adequacy resources to replace capacity that is scheduled to be on planned outage with non-Resource Adequacy capacity in accordance with the same substitution rules already approved for unit substitution under SCP. If a resource fails to replace such capacity it may be subject to penalties including possible denial of its requested planned outage and/or allocation of ICPM backstop procurement costs.

NCPA member's Resource Adequacy program includes a one-hundred fifteen percent (115%) capacity requirement, which is consistent with many other adopted Resource Adequacy programs, including the CPUC Resource Adequacy program. The purpose of adopting a 115% capacity requirement (15% planning reserve margin) is to develop a "buffer" of surplus capacity that can be used to maintain system reliability, while providing flexibility required to manage operational needs such as planned outages on generation and transmission. Requiring market participants who own Resource Adequacy capacity to replace capacity that is on planned outage would suggest that the established 115% capacity requirement could be viewed as a type of operating reserve requirement rather than a planning reserve requirement. Such treatment is excessive and will result in increased costs to ratepayers.

The Replacement Rule concept is only briefly discussed in the CAISO straw proposal, but CAISO seems to suggest that such requirement will result in "increased" system reliability. NCPA is unclear as to the basis for such assumption. CAISO fails to provide any evidence that the existing structure, which only accounts for forced outages and ambient temperature derates, is "less" reliable. Without such proof, one could assume that this is an attempted to force liquidity into the market. CAISO also implies that proponents of such change believe that the addition of a new Replacement Rule will make SCP a more fungible product. NCPA does not understand this logic. If it is assumed that Load Serving Entities and generation owners are not the same, such assumption is not always true. Many integrated utilities, including NCPA, serve both Load and own generation that is used to self-provide Resource Adequacy capacity. NCPA does not see how adding excessive requirements to the SCP will increase and/or enhance a market participant's the ability to trade or market Resource Adequacy capacity.

NCPA does not agree with the proposed concept that a "failure" to replace Resource Adequacy capacity that is scheduled to be on planned outage should result in such planned outages being canceled or not allowed. Generation facilities are significant capital investments, costing many millions of dollars, and such facilities require regular maintenance driven by use, not Resource Adequacy requirements. The ability to maintain such investments should not be inhibited by the conceptual fungible benefits that some have claimed will materialize by introducing a Replacement Rule. NCPA is confused by how CAISO proposes to add a new, more burdensome, substitution requirement to SCP, but also claims that revision to the Unit Substitution process itself is Not in Scope.

In light of the tight schedule established for finalizing the SCP II proposal, and the controversial nature of the proposed Replacement Rule, NCPA recommends that CAISO limit this market initiative to the initial purpose of addressing the double-counting of Resource Adequacy capacity based on historical data, and deem the Replacement Rule concept Not in Scope.