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Northern California Power Agency Comments CAISO Straw Proposal – Standard Resource Adequacy Capacity Product

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Northern California Power Agency (“NCPA”) would like to thank the CAISO for the opportunity to provide comments on the Standard Resource Adequacy Capacity Product straw proposal. The comments found below include both general and specific feedback to elements of the CAISO proposal. To the extent that specific elements of the proposal are not addressed as part of the comments below, the lack of comment should not be interpreted as acceptance of the proposal.

General Comments

Evidence has proven that the current Resource Adequacy Programs adopted by Load Serving Entities (“LSE”) within California have improved reliability within the system. In an effort to enhance the ability of LSEs to transact Resource Adequacy Capacity in an efficient manner, NCPA does not oppose the concept of developing a Standard Resource Adequacy Capacity Product to be used by LSEs in a voluntary manner. However, NCPA does oppose the development of a mandatory Standard Resource Adequacy Capacity Product that fails to recognize the unique characteristic of various resource types, and which does not simply build upon but rather supersedes elements of the existing resource adequacy policies encompassed within the Resource Adequacy Programs adopted by Local Regulatory Authorities, with the objective of forcing liquidity within a developing capacity market.

Mandatory vs. Optional Participation & Recognition of Unique Resource Attributes

The CAISO is clear within its proposal that the objective of this stakeholder process is to require only minimal changes to the current Resource Adequacy program. NCPA strongly

supports this principle because the existing Resource Adequacy policy has been effective in ensuring that capacity required to support grid reliability is available for dispatch. The current Resource Adequacy policy rightly defers the development of rules and criteria for qualifying Resource Adequacy capacity to Local Regulatory Authorities, which in turn provides the flexibility required to account for various types of capacity and its unique characteristics as applicable to a specific LSE's portfolio and load serving obligations.

The CAISO suggests that its proposal does not modify this current practice, but NCPA is concerned that the proposal as understood may encroach upon this fundamental requirement by implementing mandatory participation in a Tagging process. In order to effectively manage a common product represented by a Tag, NCPA generally understands the desire to standardize the underlying product as much as possible. Unfortunately, as you begin to standardize a product many of the unique (and important) elements of capacity types can be overlooked or ignored. This may be an acceptable consequence for capacity that has voluntarily committed to participate in an organized transaction process, however, for capacity that will be used to self-provide a compliance obligation and which is not intended for resale, forcing self-provided capacity into the ridged box of a standard product is not required or justified.

If there is sufficient interest among parties to transact using a standard product then an efficient market will naturally develop. The approach currently proposed involves forced participation and conflicts with the underlying principle to only apply minimal changes to the current Resource Adequacy process. The goal of simplifying the administrative burden of tracking various types of capacity is recognized by NCPA, but administrative simplicity should not be treated as a major factor in the development of this product, and in fact maintaining the option to use the existing implementation system under either the current Tariff or MRTU Tariff rules should be a minimal burden.

If a mandatory participation requirement is implemented a number of practical exceptions or exemptions must be considered and implemented in order to recognize the unique characteristic of various forms of capacity. These unique capacity types include, but are not limited to, the following:

- MSSA Load-Following Capacity Used for Self-Provision – the CAISO appears to recognize the unique requirements associated with MSSA Load-Following Capacity by implying that the Resource Adequacy Must-Offer Requirement currently in place will not be modified to change how it is applicable to MSSA Load-Following Capacity used for self-provision. This treatment is fundamentally important for a Load-Following MSSA, such as NCPA, because a Load-Following MSSA is required to simultaneously match supply and demand in real-time using its portfolio of generation and other resources, and if it fails to meet this obligation it is assessed significant financial penalties. As a result, a Load-Following MSSA must have the ability to manage its resource portfolio (including capacity) from Day-Ahead through (and into) the active trade hour as recognized in the current and MRTU Tariffs. To the extent this is not the case the CAISO must develop the appropriate modifications to a Standard Resource Adequacy Capacity Product, and the applicability of the Must-Offer Obligation, to maintain the rules incorporated within the current and MRTU Tariff to allow Load-Following Capacity to continue to be used for the purpose of Load-Following;
- Hydroelectric Resources – Many LSEs own and operate hydroelectric resources located throughout California, and the unique operational and regulatory requirements of such facilities must be respected and sufficiently addressed within the design of a Standard Resource Adequacy Capacity Product (i.e. Hydro RA resource submitting energy self-schedules should not be required to offer Ancillary Services in the DAM);
- Liquidated Damages Contracts – a number of NCPA member Local Regulatory Authorities have not uniformly eliminated or phased out the use of Liquidated Damages Contracts, as is their right under the current Resource Adequacy rules;
- Demand Response – Local Regulatory Authorities may and do treat Demand Response differently for Resource Adequacy purposes; this differentiation should be maintained under a Standard Resource Adequacy Capacity Product

The CAISO has suggested that many of the unique attributes of capacity will be recognized and captured within the Net Qualifying Capacity (“NQC”) process. NCPA is concerned that this may not be a practical solution because the CAISO should maintain a structured approach for evaluating the deliverability of capacity for NQC ratings, and should not venture into the role of assessing the qualitative elements of Qualified Capacity because many, if not all, Local Regulatory Authorities have considered elements such as deliverability, hydrology conditions, and external environmental impacts in their rules and criteria for determining what capacity qualifies as Resource Adequacy Capacity. CAISO’s attempt to readjust Qualified Capacity within the NQC process may overstep and/or supersede the rules and criteria established by Local Regulatory Authorities for determining Qualified Resource Adequacy Capacity.

Performance Incentives and Enforcement

NCPA is also concerned with the CAISO’s proposed role in evaluating performance standards and enforcement. The development of a voluntary Standard Resource Adequacy Capacity Program may help improve efficiencies in transacting Resource Adequacy Capacity, but the element of performance standards and damage provisions should be incorporated and enforced through the provisions of the bilateral contract between buyer and seller. CAISO’s role is to utilize the capacity made available via Resource Adequacy procurement to ensure grid reliability, but is not to manage or enforce bilateral contracting between buyers and sellers. The CAISO’s role in this regard is to bring non-performance issues to the attention of the contracting parties, but the enforcement of that non-performance should be dictated by the provisions of the contract.

To the extent CAISO is placed into the role of contract validation and enforcement, NCPA supports the use of Net Qualifying Capacity adjustments rather than financial penalties. As highlighted by the CAISO during the recent stakeholder meeting, the use of financial penalties would introduce needless complexity to the program, and is not a necessary element for initial implementation. Regardless of the arguments that prices will tend to converge over time,

the real fact is the value assessed to capacity transacted between parties will be different. Prices may differ due to contract term, special provisions regarding capacity type and/or source, geographic location, and other multiple factors. The act of incentivizing performance during the active compliance period should not be performed by the CAISO, but should be enforced by the terms of the contract. Systematic or chronic under performance can be sufficiently dealt with and reflected in the future assessment of NQC value for a resource. By placing the CAISO in the role of assessing financial penalties, indirect parties uninvolved may be exposed to cost due to default of payment, which may be socialized to the market. NCPA is most concerned with the potential credit ramification and burdens that financial enforcement may generate, and NCPA believes these risks and complications far outweigh the benefits suggested by proponents of financial penalties.