

NRG Energy, Inc. Comments on
Flexible Ramping Product Draft Final Proposal

Submitted By	Company	Date
Brian Theaker	NRG Energy, Inc (“NRG”)	April 23, 2012

NRG submits these comments in response to the CAISO’s April 9, 2012 Flexible Ramping Products (“FRP”) Draft Final Proposal (“DFP”).

The fact that the CAISO’s DFP and associated appendices totals fifty-one single-spaced pages bears witness to the complexity of the proposal. While NRG acknowledges that this product has been in discussion since November 2011, the growing complexity of this proposal (especially the unprecedented proposed structure for allocating FRP costs) and the expectation that this product won’t be deployed until Spring 2013 tempers the need for this product to be presented to the CAISO Board for approval in May 2012. NRG respectfully urges the CAISO to allow additional time to review and consider this product before seeking to move forward with it.

NRG’s comments on specific aspects of the DFP follow.

- **Cost Allocation.** NRG submitted extensive comments on the CAISO’s proposal for cost allocation – available at [this link](#). The CAISO’s proposal responds to some of NRG’s concerns (e.g., netting across all supply resources [DFP at 39]) and other stakeholders’ concerns (e.g., creating four separate six-hour period allocation rates [DFP at 45]). However, the DFP does not address other concerns, such as whether measuring deviations from single-value user-specified reference periods is the right allocator for a product that is purchased based on other considerations; the feasibility and expense of developing systems to be able to continually project and submit these reference levels for all resources; whether a single value suitably represents the variability (and, likely, the effect on FRP procurement) over an interval. The CAISO’s unprecedented approach to allocating the costs of these products warrants a fuller discussion than has been had to date – the April 16 meeting was largely focused on other aspects of the CAISO’s DFP, and cost allocation was not extensively discussed.

NRG agrees with the CAISO’s proposal to allocate regional FRP costs on a regional basis, but is puzzled by the CAISO taking this position in light of the CAISO’s past opposition to allocating regional Ancillary Service costs on a regional basis. Inasmuch as the CAISO now support regional allocation of regional FRP costs, NRG urges the CAISO to reconsider its preference for widely allocating regional Ancillary Services costs.

- **FRP procurement.** The CAISO’s proposal for allowing relaxation of FRP procurement, along with its proposal for procuring only an ill-defined portion of the FRP requirement in the DA market, highlights FRP as more of a real-time price-management service than any of the other ancillary services. In other

NRG Energy, Inc. Comments on
Flexible Ramping Product Draft Final Proposal

respects, FRP is treated like any other ancillary service (e.g., the proposal for a \$250/MW bid cap and \$0/MW bid floor).

Whether FRP is or is not another Ancillary Service essential to reliable system operation is not fully clear. In some cases, it seems clear that FRP is another Ancillary Service. For example, in justifying the implementation of the Flexible Ramping Constraint, the CAISO asserted that without this constraint, it could put reliability at risk:

“If this leaning [on the interconnection] becomes excessive or if the CAISO is not able to maintain its operating reserves, the CAISO could jeopardize its ability to meet NERC operating criteria and could incur penalties. In the most extreme circumstances, imbalance shortages can result in the CAISO being forced to consider firm load curtailment and be subject to reliability compliance actions from WECC/NERC.” October 7, 2012 Transmittal Letter to the Flexible Ramping Constraint Amendment, FERC Docket No. ER12-50, at 3-4.

However, the CAISO has also asserted that it is not necessary to comply with the power balance constraint at all times:

“Generally speaking, it is not cost-effective to maintain power balance with 100% confidence”. (DFP at 10)

The CAISO seems to be seeking to have the best of both worlds in FRP – a product that meets critical reliability needs, but whose procurement can be manipulated to minimize cost. The CAISO’s proposal to procure to a nebulous “60% confidence level” in the day-ahead market suggests that its procurement of FRP will be based as much on cost as on need. Prior to the implementation of MRTU, the CAISO adjusted the procurement of ancillary services between the Day-Ahead and Hour-Ahead markets to minimize cost. The CAISO abandoned this practice with the implementation of MRTU, but now seeks to reinstate it with the FRP.

NRG contends that If FRP is not an ancillary service, it should not be subject to the ancillary service \$250/MW bid cap. However, If FRP is an ancillary service, the CAISO should procure 100% of its anticipated FRP needs in the day-ahead market. Similarly, the CAISO should not relax its FRP procurement target without invoking scarcity pricing.

- **RTUC of FRP.** NRG is still not comfortable with the premise that RTUC creates headroom for FRP, but provides no opportunity cost pricing. To NRG’s thinking, creating headroom in RTUC could impose either an energy or ancillary services opportunity cost.

NRG Energy, Inc. Comments on
Flexible Ramping Product Draft Final Proposal

- **No pay.** NRG supports the revised proposal to apply the no-pay charge only to the undelivered amount of FRP capacity, as measured by deviation from the dispatch instruction.