

Western Power Trading Forum comments on Frequency Response Draft Final Proposal

Carrie Bentley
Resero Consulting for WPTF
916.217.1571
cbentley@resero.com

Ellen Wolfe
Resero Consulting for WPTF
916.791.4533
ewolfe@resero.com

February 23, 2016

WPTF appreciates the opportunity to provide these comments on the CAISO's Frequency Response Draft Final Proposal dated February 4, 2016 and stakeholder call on February 9, 2016. Although the ISO has posted the draft final proposal, prior to going to the BOG, WPTF questions additional specific information on how the ISO plans to allocate any non-compliance penalties to generators- this seems to be an outstanding question from both the paper and meeting.

WPTF supports the majority of changes to the straw proposal. The ISO no longer proposes to spend time on a look-ahead tool, adjust the spinning reserve requirement, and will not add any minimum performance requirements. WPTF strongly supports the ISO's decision to remove each of these items from the straw proposal. As WPTF has previously noted, the look-ahead tool would be extremely challenging to implement in phase 1, increasing the spinning reserve requirement in order to preserve primary frequency response (PFR) has many, many technical issues, and it would be unfair to implement minimum performance requirements and penalties, absent a FRO payment and clear understanding of resources' capabilities.

WPTF strongly supports immediately moving forward with phase 2 of this initiative. FERC approved BAL-003 on January 16, 2014 and it has taken the ISO over two years to propose an interim solution. Rather than lose momentum and the expertise developed by ISO staff and stakeholders, WPTF strongly supports immediately moving into phase 2 in order to evaluate a more comprehensive market solution – ideally a market product.

The ISO's proposal to transfer a portion of the ISO's frequency obligation to external BA's through an RFP process should be established at FERC as a temporary fix and not a long-term solution. The ISO proposes to run an RFP process where other BAA's may offer Transferred Frequency Response (TFR) to the ISO and the ISO will evaluate these offers based on its expectation of costs through committing additional generation on-line through exceptional dispatches.

WPTF is uncertain about whether the market design as proposed is efficient and non-discriminatory. First, although on the February 9 call, the ISO described the 'expectation of future exceptional dispatch costs' as a "cap" and "a way to evaluate excess costs." However, the ISO is proposing to rely on exceptional dispatches if they are less expensive than the offered TFR. Therefore, under the ISO's proposed RFP market design, exceptional dispatches to procure PFR

from resources are a perfect substitute for TFR. Given that exceptional dispatch costs are based on (1) a resource's marginal cost and (2) a resource's capacity offer into the Capacity Procurement Mechanism's inter-month competitive solicitation process – exceptionally dispatched resources appear to be directly competing with other BAAs based on their marginal costs and capacity offers.

First, WPTF notes that an RFP where external BAAs compete with estimated exceptional dispatch costs is not an optimal market design as it is likely that resources would offer to provide PFR for less than their marginal cost to provide energy and capacity offer if given the opportunity.

Second, WPTF is concerned that the proposed structure specifically discriminates against the remaining resources on the system that provide frequency response. These resources will not be compensated either through the RFP or exceptional dispatch mechanism. The ISO is fundamentally setting up a structure to directly compensate some resources and not compensate others when they are providing the same service to the grid.

Finally, WPTF has a fundamental objection to the ISO setting up an as-bid market for a compliance obligation. If the ISO is going to set up a market, the least it can do is stick to fundamental market principles and pay a marginal price.

Thank you for considering our comments.