Western Power Trading Forum comments on Flexible Ramping Product Straw Proposal

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WPTF appreciates the opportunity to provide these comments on the CAISO's FRP straw proposal dated June 2, 2014 and the discussions at the subsequent meeting on June 9, 2014.

WPTF supports continued development of the FRP. We offer comments on two areas of concern below.

The must-offer obligations (MOO) to offer FRP must be revisited.

The CAISO proposed must offer obligation design errs in two respects. First, while a MOO that required a resource to offer economic bids was envisioned for flexible capacity (FRAC), requiring that flexi-RA resources bid into the FRP at a zero price will create market inefficiencies. The CAISO's Market Surveillance Committee (MSC) commented extensively on the importance of spot market mechanisms to reward flexible capacity in its Opinion on Flexible Resource Adequacy Criteria and Must-Offer Obligation of March 11, 2014.[1] In this opinion the MSC commented not only on the value of energy price signals but also on the importance of the ancillary service and FRP price signals, including the value of a solution that procures for the FRP from whomever can most economically provide it in the short term markets (p. 11). Requiring that all FRAC resources offer FRP at a zero price will mute the price signal, eliminate any efficient allocation of the needs to providers (other than that indicated by differences in energy prices), and could significantly reduce the market price signals associated with the product.

As discussed during the meeting, the requirement to bid zero for FRP also removes any ability of suppliers to differentiate in its bids the ISO's use of their resource for flexibility instead of energy or ancillary services. Removing this ability also is not efficient and may discourage generally the provision of FRAC.

In short, as the MSC points out, the appropriate place for price signals and differentiated procurement is in the CAISO's spot markets, including FRP. Price sensitive offerings will provide for this differentiation and an efficient market clearing. With a well-functioning spot market the MSC suggests the FRAC premiums will be zero. The CAISO's recent proposal presumes the opposite; that suppliers will get paid for flexibility in the RA market and thereby warrant no additional bid-based FRP offers. That is backward thinking and needs to be revised.

Secondly, the CAISO's FRAC MOO provisions included in its recent FRP proposal would impose a must offer requirement to provide FRP on resources that have not even sold FRAC. In no way should a resource that chooses to not provide FRAC, or from whom no FRAC is procured, be obligated to bid to provide FRP let alone at a zero bid price. Imposing a FRP must-offer requirement on generic RA would

[1] http://www.caiso.com/Documents/FinalOpinion-FlexibleResourceAdequacyCriteriaMustOfferObligation.pdf

create a retroactive obligation and muddy the distinction between generatic and flexible RA. Flexible RA should be available to be flexible in the ISO's spot markets, generic RA should have no obligation to bid FRP, and if generic RA wishes to bid FRP they should be able to bid at any indifference price, not simply at zero.

<u>The CAISO should expidite implementation of the FRP</u>

The CAISO's FRP implementation has continued to slip, now identifying a fall of 2015 implementation date. At the same time the ISO is proposing to reduce the compensation for the FRC.   The straw proposal even conveys that the ISO is dropping its proposal for an integrated IFM and RUC, thus simplifying the design. The outstanding or new design elements are limited; ISO should move the implementation to the spring of 2015.

We appreciate your consideration of these comments.