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From: Doug Davie [ddavie@wellhead.com]
Sent: Thursday, February 19, 2009 2:28 PM
To: Standard Capacity Product Mailbox
Cc: McDaniel, Grant; Salvagno, Ken
Subject: Comments on 2/6/09 SCP White Paper

Wellhead appreciates the efforts CAISO staff is putting into the development of a Standard Capacity Product for Resource Adequacy ("SCP") that will provide the CAISO access to an important and valuable energy system supply service. However, Wellhead has a number of concerns that need to be addressed in the efforts to finalize the SCP.

RA is Being Changed to a New Product

Foremost, the CAISO should clearly acknowledge that SCP creates a new product which has operations oriented features which is very different than the Resource Adequacy ("RA") product that has been part of the energy infrastructure in California. Specifically, RA is a capacity planning product used by Load Serving Entities in demonstrating that they have arranged for an appropriate amount of reliable capacity to meet their expected loads in the near term (up to a year ahead). The current obligation for providers of RA, to make that capacity available in the energy markets, is an appropriate requirement to ensure that the capacity being relied upon to serve the interconnected grid's energy requirements is in fact available. The proposed requirements associated with the SCP add important system operations services (i.e. ancillary services which are a very different product than energy scheduled for delivery on a day ahead or hour ahead basis). Specifically, SCP providers will be required to offer ancillary services to the extent the resource has that capability and they will be required to get real time approval of substitutions of alternate resources because of operational considerations (as stated by the CAISO in the stakeholder call on February 13th). Wellhead understands that the CAISO wants to ensure that sufficient amounts of ancillary services are available to meet system needs and agrees that operational considerations are critical to maintaining system integrity. However, transforming a capacity planning product into an operations service product should be acknowledged for what it is – the creation of a new, more valuable energy supply service product. **The CAISO should specifically recognize in the SCP tariff that a resource which can provide ancillary services in addition to simply delivering energy is providing a different, more valuable, service than has been provided by the current RA product.** It may even be appropriate to give it a different name such as "Ancillary Services Resource Adequacy" or "Resource Adequacy for Operations". Using the old name for a new product creates a high potential for confusion within the industry. Failing to make appropriate product distinctions would be confiscatory (because resources providing these additional capabilities are not paid more than resources not providing such capabilities under the proposed SCP tariff) and could also result in resources not seeking to obtain/retain ancillary service certifications because they are not appropriately compensated for that value added service. Either of these results would be counter to the CAISO's desires to promote the development of a fair competitive marketplace and to increase the amount of ancillary services available in the CAISO markets.

In addition to acknowledging that the SCP will be a different product than RA, there are a number of details that need to be addressed in the SCP proposal. As requested, these comments focus on the February 6th white paper.

Ambient Outages Must Include Regulatory Limitations and Recognize Other Parties Rights

The SCP definition of "Ambient Outages" needs clarification. Specifically, SCP needs to clearly recognize that **"use limited resources" includes regulatory (permitting authority) constraints on the operation of a resource.** This could include permit conditions such as limits on the amount of gas a thermal resources can use in a given time period (day, month, year, etc.) or limits on the hours when a resource can be operated due to noise considerations. The SCP also needs to recognize that multiple entities may have contracted with the resource for the various power supply/services it can provide (i.e. resource adequacy can be contracted as a separate and distinct product from other capabilities that may be contracted to other entities). **The CAISO does not have exclusive rights to use the maximum operation a resource's permits/entitlements allow.** Hence, the SCP must recognize that an Ambient Outage, which does not count against availability, may occur when the CAISO has requested less operation of the resource than is permitted (i.e. the limits apply to the operation of the resource regardless of who requested the resource to operate and this is identical, for example, to a hydro project

where a limited amount of water is used regardless of who it was used for).

Wellhead also questions the reasonableness of a variable performance standard that could require 100% availability to avoid penalties unless there is express consideration of this in the determination of regulatory price caps implicit to the load serving utilities procurement of RA capacity. "Perfect capacity" is clearly a more valuable product than unit contingent capacity which has been the focus of RA heretofore.

Substitution Should Not Require Real Time Approval

The SCP tariff should not create a new standard for substitution of RA that is acquired to meet local capacity planning requirements. In performing local capacity requirements studies, the CAISO identifies resources in an area that can be used to meet the needs of that local area. Substitution for an RA resource with any non-RA resource in the same local area should be allowed without the need for real time CAISO review and approval. Requiring a subsequent review for operational issues would subject the substitute resources to different rules which would be discriminatory. **A substitute resource that is in the same local area as an RA resource, as shown in the CAISO planning studies at the time the local capacity requirements were established, should be deemed an acceptable substitute;** there is no need to revisit the local area designations. In this regard, the reference "connected to the same bus" is way too restrictive (unless the CAISO is modeling each local area as a single bus in which case all of a local area's generation will be at the same bus presumably making substitution review a non issue).

Grandfathering Must Not Interfere with CPUC Initiatives/Approvals

Wellhead is pleased to see that the CAISO has recognized that its prior proposals regarding grandfathering interfered with pre-existing agreements to provide RA. Two clarifications to the most recent grandfathering proposal are appropriate to ensure there are no ambiguities or unintended consequences created with regards to CPUC initiatives and orders. First, the SCP needs to take specific account of the effort underway, in response to CPUC orders, to restructure CDWR contracts. So as to not interfere with those efforts, the **CAISO should clarify that restructured CDWR contracts will not lose their grandfathered status for the original contract term (even when they end up with a new utility counterparty)**. For example, if the current CDWR contract term is through 2012 and the restructuring extends that term through 2015 with a utility counterparty, the grandfathering should continue to apply to the restructured agreement through 2012. Doing otherwise would conflict with the CPUC's efforts to get the CDWR contracts moved to utility counterparties and could even result in resources that are currently voluntarily complying with the CAISO RA rules ceasing that voluntary compliance (i.e. some, all??, CDWR contracts have no requirement to provide RA or meet RA requirements). Second, the CAISO needs to recognize that **all pre-existing agreements executed before 1/1/09 and approved by the CPUC qualify for grandfathering** (in some cases, the "executed agreement" may be one that requires a utility to execute a CPUC approved PPA when certain triggering events occur and that PPA must qualify for grandfathering).

CAISO System Modifications and Clarifications Needed

In addition to providing comments on the February 6, 2009 white paper, Wellhead wants to remind the CAISO that certain elements of its SCP proposal require changes to CAISO systems and information management. One such need is the ability to separately track a resource's ability to provide energy and ancillary services. For example, if a resource that is certified to provide regulation service has a problem with its RIG equipment, there is currently no way to inform the CAISO that only the regulation service is unavailable. In this case, the resource cannot legitimately put in a bid for regulation service and the CAISO must not put in a bid on the resource's behalf. **Elements of SCP which require CAISO infrastructure and systems to properly manage the requirements must not be implemented until such infrastructure is in place.**

Also, the **CAISO needs to address the details around "how a resource will be protected from harm" when the CAISO converts an awarded energy schedule into an ancillary services bid/award**. Questions include: will this only be an option for the CAISO when all other ancillary service bids have been accepted?, how/when are converted bids entered when there is a firm energy schedule in place?, how will the ancillary service price be set for the converted resource?, will the converted resource be paid as if it had submitted an ancillary service bid?, will the CAISO reimburse the resource for any additional costs the resource incurs?, who will be responsible for replacement/imbalance energy for the energy schedule that is not met?, what will be done with Inter SC Trades that were based on the energy schedule?, and will the market clearing price for energy be adjusted to reflect the cost of the next higher price resource needed to supply energy?. It also seems likely that MRTU systems will need to be modified/reprogrammed to accommodate this element of SCP.

Wellhead looks forward to seeing the CAISO's next complete version of the proposed SCP and will provide additional comments as appropriate.