

# Stakeholder Comments Template

## Subject: Standard Capacity Product

### Comments due COB Thursday 9/11/08

The CAISO is requesting written comments on the *Standard Capacity Product Issue Paper* that was discussed at the September 3<sup>rd</sup> Conference Call. This template is offered as a guide for

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entities to submit comments; however participants are welcome to submit comments in any format. There is a section at the end of the document to comment on topics that may not be covered in this questionnaire.

All documents related to the Standard Capacity Product Initiative are posted on the CAISO Website at the following link:

<http://caiso.com/2030/2030a6e025550.html>

Upon completion of this template please submit (in MS Word) to [scpm@caiso.com](mailto:scpm@caiso.com). Submissions are requested by close of business on Thursday, September 11, 2008.

Please submit your comments to the following questions in the spaces indicated. If you are offering proposals or recommendations, please provide the business justification or other rationale for your proposals, including illustrative examples wherever possible.

**SCP Overview**

1. Slide 8 of the “Review of the Standard Resource Adequacy Capacity Product Issue Paper” presentation (<http://caiso.com/2030/2030a6e025550.html>) provides an overview of the SCP in the RA Process. Do you agree with this characterization? If not, how would you modify it?

*DRA agrees with the basic principles in the overview Slide 8, and offers the following general comments.*

*First, we agree with the basic process proposed where tags would be assigned for eligible RA capacity. This proposal could be workable under the current bilateral contracting or if a central market is adopted, which remains to be decided in the CPUC’s proceeding R.05-12-013 Track 2 decision. The main objective of this initiative is to define a standardized and more readily tradable capacity product in order to facilitate the selling, buying and trading of RA capacity. Such a Standard Capacity Product (SCP) will ensure the availability of reliable resources for the CAISO when and where needed, while meeting the CPUC’s Resource Adequacy requirements.*

*The SCP should be consistent with existing policies and rules adopted in the CPUC’s Resource Adequacy proceeding. For example, counting rules and QC and NQC determinations have already been discussed and decided in R.05-12-013. In addition, the CEC’s load forecast should be relied upon. The performance obligations of the suppliers of the SCP will have to be incorporated into the CAISO tariff, and the CPUC will continue to have jurisdiction over the Resource Adequacy Requirements, setting the Planning Reserve Margin (made in conjunction with the CAISO’s PRM Study).*

**Roles and Responsibilities**

2. What is the dividing line between the obligations of suppliers of RA capacity and those of the LSEs? Does the LSE’s responsibility end with its submission of SCP tags to meet its RA requirements, or would there be circumstances where a supplier’s failure to deliver required some action on the part of the LSE whose submitted RA capacity is affected?

*In general, in order to have a consistent, readily tradable and fungible capacity product, the performance obligations would have to rest on the supplier. Thus, the LSE’s responsibility would end with the RA showing and submission of required SCP tags. DRA suggests that if there is a possibility of a multi-year RA showing in the future, we will need to consider also who will be responsible for replacement capacity for new resources that do not come on line as scheduled. (This will not be known until the Track 2 decision in CPUC proceeding R.05-12-013 is issued.) Further discussion may also be needed to consider how scheduled maintenance outages will impact the tags and RA compliance. The details of these exceptions, if needed, can be worked out in workshops.*

**Obligations of RA Capacity**

3. What is required of the RA capacity or supplier within the delivery period? In particular, what modifications to the existing RA-MOO are needed? Do parties agree

that RA capacity must be available to provide Ancillary Services to the extent they are certified? What other obligations need to be specified in the RA-MOO?

*Currently, RA does not provide Ancillary Services. Changes to the RA-MOO do not need to be addressed in defining the SCP. For the near term, we should focus on the existing System RA and Local RA products.*

4. How standard is standard? How does a “standard” product deal with details like Local Capacity Requirements (LCR)? Use limitations? Non-standard generation, such as demand response or pumped storage hydro? Are there other flavors of the SCP that need to be defined?

*For the time being, we should focus on a SCP definition for the System and Local RA, as well as the use limited restrictions reported for RA purposes, referred to as Categories 1-4. While we may want additional flavors in the long run, we should defer this to a later phase.*

### **Facilitating Procurement, Registration & Compliance Showings**

5. Stakeholders have suggested that the scope should include a bulletin board to facilitate transactions.
  - a. What do parties envision as the scope and functionality of such a bulletin board?

*The Electronic Bulletin Board should have the unit, price, system or local product, amount of MWs. Other details can be worked out in workshops.*

- b. Is this element essential to getting the SCP up and running? Could the SCP function without it? Can this element be deferred until a later time? Could it be developed by a third party?

*The EBB should be the end goal, but is not essential to define the SCP. It can be developed over time, and by a third party.*

6. What is the preferred vehicle for transferring capacity tags between parties?
  - a. Should a confirmation letter be used to procure RA capacity? If so, what should be the form and standard content of such confirmation letter?
  - b. If not, what is the preferred vehicle for transferring SCP tags between parties?
  - c. Is this element crucial for the initial filing

*Yes, we agree that a standard contract and confirm letter can be used, this has been suggested by parties. The CAISO could use the standardized materials included as Attachment 1 to the Calpine/Joint Parties Proposal filed with the CPUC on 12/12/07 (referenced in the CAISO Issue Paper, fn. 2.) It is critical to have a clear understanding of the SCP obligations and a standard form; however, the first step to define and incorporate these obligations into the CAISO Tariff.*

7. Is an electronic RA Registry essential to the SCP effort, particularly if it may impact the ability to make a FERC filing in early 2009? Could the RA Registry be developed in a later phase?

*The RA Registry could be developed in a later phase.*

- a. What systems or infrastructure are needed or desirable to (1) facilitate trading (2) track ownership (3) enable registration of SCP tags? How can we meet such needs by a relatively simple interim approach for the near term, to be developed later into an end-state approach?

*The EBB and the Registry are needed. In the interim or near term, CAISO could carry out in the same fashion that currently the Energy Division RA showings.*

- b. Is there a reason why an RA Registry is essential to prevent double-counting of RA capacity? The CAISO and CPUC have been validating RA capacity for several years now to ensure that no double counting occurs. Is the current system sufficient?

*It may not be absolutely essential to have the RA Registry, as the CAISO and CPUC currently validate the RA process, but it is labor intensive, time consuming, and could be done much more efficiently with such a tool, and would benefit parties and CPUC/CAISO staff alike.*

8. What is required of the RA capacity or supplier prior to the delivery period? For example, should the CAISO assume continued use of current procedures such as submission of supply plans, or should alternatives or enhancements be considered within the scope of the SCP? If an RA Registry is created, does it need to include a level of sophistication that would allow the elimination of year-ahead and month-ahead showings and supply plans? Is this aspect of the RA Registry essential? There also is the reality that the CAISO requires supply plans from its SCs because it is the SCs with whom it has a contractual relationship; not the LSEs. RA resource data is currently validated through the supply plans and it is the supply plan information on RA capacity that is entered into and used in the CAISO operating systems. Also, will the CPUC be interested in departing from the current RA convention of year-ahead and month-ahead showings submitted directly to it by its jurisdictional entities? In essence, is it realistic to expect that an electronic mechanism can replace the current system of showings (both RA showings and supply plans)?

*The current RA compliance process is sufficient for the time being. With the RA registry, submission of supply plans could be eliminated. The CPUC would continue to monitor RA compliance via the RA registry and/or duplicate copies of information in the CAISO operating system. We can expect that an electronic mechanism can replace the current system of RA showings and supply plans.*

### **Performance Standards for RA Capacity**

9. Do all stakeholders agree that all obligations for performance should be on the supplier? Are there certain circumstances where the LSE should be required to take some action, particularly if there is a long lead time in which to act?

*DRA agrees that performance obligations should be on suppliers, with the possible exceptions noted above under question 2.*

10. What challenges are posed by use-limited resources and demand response resources? What metrics will allow fair and reasonable treatment of these and all other types of resources?

*The CAISO will have to track use-limited resources. DRA believes that the CPUC rules and policies addressing these limited resources should continue.*

11. How shall an outage be defined for purposes of calculating availability metrics? What is an acceptable forced outage rate? Should it vary by technology type?

*Outage definitions and forced outage rates should be the same as adopted in the CPUC RA proceeding.*

12. Should availability factors be broken out and standards developed for specific classes of resources to reflect their unique operating characteristics, i.e., combustion turbine, hydroelectric, demand response, wind, solar?

*Availability factors and NQC standards should remain the same as the current RA rules, with the exception of wind, which is being discussed in the ongoing CPUC RA related proceeding, R.08-01-025.*

13. What are the criteria which would trigger procurement of replacement capacity to replace RA capacity that does not or cannot perform sufficiently, as opposed to relying on the margin built into Planning Reserve Margin-based (PRM) RA requirements?

*The criteria for triggering procurement of replacement capacity should be consistent with rules governing RUC procurement, the ICPM or Exceptional Dispatch.*

Should the “forced is forced” principle be continued as is, or is some modification needed in conjunction with the SCP proposal?

*The “forced is forced” policy should remain the same. If this issue is revisited, it should be handled in the CPUC PRM proceeding, which could be revisited approximately every 5 years or so.*

- a. How should costs of replacement capacity be allocated?

*It should be borne by the supplier through a penalty for failure to perform.*

14. When, if ever, should insufficient performance by RA capacity have an impact on the LSE that submitted the capacity to meet its RA requirements? For example, in the context of the current monthly RA model, suppose an RA resource is suddenly forced out and will be out for three months of its contracted delivery period. Should the LSE that submitted that resource be required to obtain replacement capacity by the next monthly showing?

*Except as discussed above, the supplier should be responsible.*

### **Penalties & Other Corrective Actions**

15. What are the different functions and incentive effects of financial penalties vs. adjustments to NQC?

*Under the current rules, there are no changes to NQC during the year; however, there are penalties for poor performance. DRA believes that this should remain in place. If there are continuous or repeated performance problems, NQC will be adjusted in the following year.*

16. To what degree and under what circumstances should the adjustment of NQC of a resource occur?

*DRA supports keeping the existing rules.*

17. How might seasonal penalty rates be applied to ensure a very high incentive for resources to perform in high demand periods?

*DRA believes that this is a good idea in principle, especially during summer months when supply is tight. We could discuss developing rules in a workshop or stakeholder meetings.*

### **Credit Requirements**

18. What credit requirements should apply to RA suppliers vs. Scheduling Coordinators for RA capacity?

*DRA has no comment.*

19. What is correct method for calculating the optimal credit requirement?

*DRA has no comment.*

20. Should the credit requirement required for the SCP stand alone or should the liability associated with this product be netted against the overall Accounts Receivable/Accounts Payable (AR/AP) of the SC associated with the RA supplier?

*No comment.*

### **Implementation Details**

21. Given that an early 2009 tariff filing with FERC is the working target to enable parties to begin RA capacity negotiations based on the SCP as early as possible, what elements of the SCP must be in place to meet both the commercial and the reliability objectives of the SCP by the desired target?
- Which elements are crucial for the initial filing?
  - What additional elements can be resolved in time for an early 2009 FERC filing?
  - Which elements can wait for a subsequent FERC filing?
  - Should this be a staged or phased implementation with planned enhancements in future filings?

*Critical elements are (1) Define the supplier obligations and standard capacity product attributes; (2) Adopt a standardized confirmation letter; (3) Establish tags/tagging system for units. The NQC for wind should be resolved in time for the 2009 FERC filing. The EBB and Registry could wait for a subsequent FERC filing. The SCP implementation process could be done in phases.*

22. Assuming the SCP proposal is filed and approved by FERC in spring 2009, should the SCP take effect immediately for use in the monthly RA showings for the remainder of 2009, or only come into play for RA capacity procured for delivery in 2010?

*Depending on how many months of the year are left, it could be used for the remainder of 2009.*

23. The CAISO understands that the end-state vision for the SCP is that it will apply to 100% of the capacity procured to meet RA requirements. Can the SCP definition be applied to 100% of RA Capacity from the start? Is there a need for a transition period to a full implementation of SCP (i.e., short-term “grandfathering” of some existing RA capacity)?
- a. If a transition period is needed what is the rationale for it and how should it be defined?

*A transition period will be needed in consideration of existing DWR contracts that were signed before the RA program was adopted, which are already grandfathered. These are firm energy contracts. Further, these contracts will be phased out by 2012 or so.*

- b. What criteria should be used to define categories of RA resources eligible for grandfathering during the transition period? What shares of RA capacity do these categories represent, and what are the practical implications – e.g., any relaxation of performance obligations, reduction in tradability, impacts on existing supply contracts – of allowing them to be grandfathered?

*Grandfathering should apply to firm energy contracts that were signed before the establishment of RA program by CPUC.*

24. What change management provisions need to be incorporated into the SCP proposal? Besides specifying the provisions for a transition period, if one is determined to be needed, what other change management scenarios must be considered?

*N/C.*

25. Assignment of SCP tags to eligible RA Capacity
- a. Should the SCP simply take the existing counting rules and NQC determination process as given, or are there issues with these existing features of the RA process that need to be addressed in conjunction with the SCP? For example, if different flavors of the SCP have different performance requirements, how can we ensure that simply adding up the pre-determined quantity of SCP tags will result in achieving the desired level of overall system reliability?

*Yes, the existing counting rules and NQC should be used, with the exception of some intermittent resources, which are currently being considered in the CPUC RA continuation proceeding (R.08-01-025.)*

- b. Are there other factors besides the counting rules, testing of maximum operating capacity, deliverability assessment, and performance criteria that should figure in the calculation of a resource’s MW tag quantity? If so please describe.

*DRA does not support changing tag quantities during the year; penalties should be sufficient to disincent poor performance. The amount of current penalties should be reviewed to make sure these penalties would assure a reasonable performance.*

Can we equate the quantity of tags for a resource to its NQC, or is there a need to maintain a distinction between these two terms?

*The NQC should be the same as the tag availability. There should be no distinction.*

- c. What is the duration of a tag? Are tags issued anew each year with a one-year term? Or are tags permanent once they are acquired by a resource? If the latter, must a resource that retires or has its NQC reduced in a subsequent year buy back all or some of its outstanding tags? Can NQC be reduced within a given delivery year based on supplier performance?

*Tags should be issued once a year. The NQC should not be reduced during the year, rather, only a financial penalty should apply within the year for poor performance.*

- d. How are tags assigned to new capacity investment prior to construction or commercial operation?

*This should be done consistent with CPUC RA decisions, and the interim policy adopted in D.08-06-031, pp. 16-17 regarding commercial availability should be followed.*

#### **Other Comments:**

*DRA commends the CAISO for initiating this stakeholder proceeding, which inherently recognizes the value that a Standardized Capacity Product will bring to the contracting process necessary for Resource Adequacy. We urge the CAISO to keep the initial phase of defining the SCP as narrow as possible in order to agree upon the basic terms in time for a 2009 FERC filing. Finally, the CPUC policies and rules developed for the Resource Adequacy Requirements program should be relied on and do not should not be revisited in this process.*