

Dynergy Comments on January 19, 2010 Standard Capacity Product II Straw Proposal  
February 2, 2010

Submitted By	Company	Date
Brian Theaker	Dynergy	February 2, 2010

**Deferring Demand Response.** By the CAISO’s own admission, 12% of the generating units that currently provide RA capacity are not subject to SCP availability requirements. Further, the approximately 3,000 MW of demand response that counts towards meeting RA requirements represents more than five percent of total RA requirements. Altogether, nearly a fifth of the resources that currently meet RA requirements are not subject to standard capacity product availability requirements. This disparity begs the question of what the SCP was intended to accomplish, and what it has actually accomplished. At present, there is little evidence that it has facilitated RA contracting. To date, it may have served only to impose CAISO-specific availability penalties on a subset of – but not all – RA resources. That result did not warrant the hasty implementation of a non-standard “standard” product.

Dynergy understands the CAISO’s rationale for removing applying the SCP availability requirements to demand response (DR) from the current scope of SCP2. However, Dynergy is greatly concerned that the CPUC’s ongoing DR proceedings have not yet provided clear rules for DR’s participation in the CAISO’s markets, despite the fact that such proceedings have been underway for several years. Nor is there any reliable indication of when such rules will be developed. Meanwhile, despite the restrictions on the use of DR, and the uncertainty regarding its participation in the CAISO markets, DR still fully counts towards meeting RA requirements. Dynergy strongly supports the CAISO’s decision to convene a separate stakeholder process to develop availability requirements for DR, and encourages the CAISO to aggressively move forward with the DR stakeholder process as soon as possible, consistent with FERC’s expectation that DR’s exemption from SCP availability requirements be short-lived.

It is not necessary to develop rules for DR’s participation in the CAISO’s markets in order to apply RA availability requirements to DR. The key metrics that indicate whether DR is a suitable RA capacity resource - availability and performance - can be assessed outside of DR’s participation in any CAISO market. Participation in the CAISO’s markets is necessary to determine how a resource meets RA requirements only if that RA resource is required to participate and bid into the CAISO’s markets. Moreover, if how a resource participates in the CAISO’s markets must be defined **before** the CAISO’s SCP availability rules can be applied to that resource, then only resources that can and do bid into the CAISO’s markets should be permitted to count towards meeting RA requirements.

In sum, Dynergy is disappointed that the CAISO proposes to defer consideration of applying availability requirements to demand response from the scope of SCP2, but encouraged that the CAISO intends to convene a separate stakeholder process to do so. Dynergy urges the CAISO to convene that process as soon as possible. In light of the fact that DR continues to count fully towards meeting RA requirements even though it is not participating in the CAISO’s markets, Dynergy urges the CAISO to develop and

implement availability requirements for DR independent of any CPUC proceedings on DR's participation in the CAISO markets.

**Calculation of Availability for Non-Dispatchable Resources.** Discussion in the CPUC's new RA proceeding (R.09-10-032) has surfaced a problem regarding how the CAISO calculates availability for some resources. CalWEA's January 11, 2010 proposal in R.09-10-032 (at 11-12) posits a situation in which a wind farm with a 100 MW nameplate rating, but an NQC of 11 MW, suffers a forced outage of 12 MWs' worth of turbines. As CalWEA points out, per the CAISO's current SCP availability calculation in Section 40.9.4.2, this particular resource would be deemed to be 800% available in a month when a total of 12 MW of turbines was forced out because the basis for assessing the availability of this resource is the resource's NQC, not its nameplate rating. This is an absurd result.

There are two potential solutions to this dilemma. One would be to assess the availability of non-dispatchable resources on the basis of their maximum mechanical availability, not NQC. In CalWEA's example, in which the 100 MW wind farm has 12 MW of turbine outages, the calculated availability should be:

$$88 \text{ MW (actual mechanical availability)} / 100 \text{ MW (maximum mechanical availability)} = 88\%.$$

This is a far more reasonable determination than calculating the wind farm as:

$$88 \text{ MW (mechanical availability)} / 11 \text{ MW (NQC)} = 800\% \text{ available}$$

even if the CAISO caps the maximum availability at 100%. Non-dispatchable resources should not be assumed to be fully available just because their NQC value is far less than their mechanical availability value. Dynergy recommends this solution.

The other potential solution is to continue basing the availability calculation on NQC, but to change the numerator of the availability calculation to the performance of the wind farm over the given month. Moreover, the monthly performance should be determined using the same method used to determine the NQC, i.e., if the exceedence method is used to calculate NQC, it should also be used to calculate monthly performance. This approach would have the collateral benefit of encouraging, from a commercial standpoint, what the "right" NQC calculation for these kinds of resources should be, rather than simply relying on a rote formula to determine NQC. Assuming that the penalty rate for non-availability approximated the benefit that the owner received for selling NQC, the owner of the resource would want the resource's NQC to accurately reflect the unit's likely performance in that month. However, Dynergy recognizes that this second proposal, while creating the right incentives for encouraging commercially "right" values for NQC, is likely to be controversial.

**Scheduled Outage Replacement Rule.** Dynergy does not object in principle to modifying the replacement rule so that the supplier, not the LSE buyer, is responsible for providing replacement capacity for a scheduled outage. However, the following issues must be dealt with:

Dynergy Comments on January 19, 2010 Standard Capacity Product II Straw Proposal  
February 2, 2010

- **No double penalty.** Before CAISO changes the replacement rule, CAISO must grandfather any existing contracts which the buyer may impose a penalty for a supplier's failure to provide replacement capacity. Otherwise, the supplier could get penalized twice – once by the buyer, and once by the CAISO (if the CAISO assigns the supplier any ICPM procurement costs for the supplier's failure to procure replacement capacity.)
- **Scope of replacement.** As was noted on the CAISO's January 26, 2010 SCP2 call, current CPUC rules allow for LSEs to replace local capacity on outage with system capacity in monthly showings. This flexibility should be preserved if the rule shifting responsibility for procuring replacement capacity from the buyer to the supplier for scheduled outages is adopted.