

# Stakeholder Comments Template

## Subject: Standard Capacity Product

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

Submitted by	Company	Date Submitted
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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 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?

*Yes.*

#### **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?

*An LSE should not be obligated to take further action following a forced outage of any of the capacity for the duration of the applicable showing period. As an example, if RA showings apply on a monthly basis, an LSE should have to take no further action for a forced outage within a given showing month, but should have to take action for a forced outage that lasts beyond a given showing month. Conversely, if RA showings applied on a calendar year basis, an LSE would have to take no action for a forced outage within that calendar year.*

*Further, it may be prudent and reasonable for an LSE to take action to procure additional supply if the capacity lost to forced outage exceeds the forced outage rate built into the planning reserve margin. For example, if the forced outage rate built into the PRM is 3%, but 5% of an LSE's supply is on forced outage, the LSE should procure an additional 2% of qualifying supply.*

### **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?

*The supplier should be obligated to offer the amount of sold tags into the CAISO's energy markets. Dynegy does not oppose requiring a supplier to offer the amount of capacity certified to provide an ancillary service into the CAISO's ancillary service markets, but notes that imposing an A/S offering obligation may create conflicts when a supplier satisfies the offering obligation through self-scheduling energy. In light of the CAISO's proposal to impose another offering obligation on suppliers, Dynegy notes that requiring suppliers to offer the full amount of sold RA capacity to the CAISO's Day-Ahead market at the same time demand is not similarly obligated to participate in the Day-Ahead market and may shift up to 15% of its procurement to the real-time market creates an opportunity for demand to manipulate day-ahead prices. Market participants will have no recourse to address this manipulation until the implementation of convergence bidding.*

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?

*The CPUC has already applied a "top-down" approach to RA procurement, and created "buckets" of different types of energy-limited supply and limits on the amount of supply that can be procured from each bucket. Further, the CPUC has established counting rules that define the amount of NQC from different types of intermittent resources.*

*Creating different types of “standard” RA capacity products undermines the purpose of creating a standard RA product, namely, to provide as much market liquidity for that product as possible. The standard product should be just that – a standard capacity product, and complexities such as local area procurement, ancillary services and energy limitations should be dealt with outside of the definition of a standard product.*

### **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?

*In its simplest form, a bulletin board would simply facilitate transactions between buyers and sellers seeking to transact using the standard capacity product. Transaction reporting could be added to provide some price transparency, though the need to define rules around price reporting would add significant complexity. Further, a bulletin board that merely listed sellers with available capacity for sale but provided no information on buyers seeking capacity would not be an equitable market-making mechanism.*

- 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?

*No, yes, yes, and yes.*

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

*a. A confirm should be required.*

*b. N/A*

*c. Yes, a confirm should be required for tracking purposes.*

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?

*Dynegy supports the development of a registry that would obviate the need for suppliers to submit supply plans and buyers to submit showings. Such a registry would be completely aligned with a stated goal of developing a standard capacity product, namely, to reduce transaction and compliance costs. While the development of such a registry may be secondary to the development of a standard product, and could be deferred to a second phase, it is one of the integrated benefits of a standard product and should not be unduly deferred.*

- 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?

*A centralized capacity market, run by the CAISO, through which all standard capacity is cleared, would provide all these things. The value of near-term implementation of temporary, piecemeal solutions to any of these issues should be questioned.*

- 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?

*Is an RA Registry essential? No. But if an RA Registry lessens the significant burdens of making compliance demonstrations and compliance evaluations, it provides substantial benefits to all parties and should be pursued.*

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)?

*A registry should include the level of sophistication that would eliminate the need to submit showings and supply plans. Dynegy believes that this is a key benefit to a registry, and questions the value of a registry that does not accomplish this.*

### **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?

*Please see answer to 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?

*Given that the peak demand may occur in any day in a month (including, possibly, a Sunday, as SDG&E's 2006 peak occurred on Sunday, July 23, 2006), and that the*

*purpose of creating an RA obligation is to ensure LSEs have sufficient capacity available and operating to meet the peak demand, the challenge posed by use-limited resources is to ensure that the use-limited resources are available and capable of operating to serve the peak demand within a showing period, no matter when the peak may occur may occur within the showing period. To ensure this may require limiting the amount of capacity from use-limited resources that may be used to count towards meeting RA requirements. An alternate approach may be to discount the NQC of use-limited resources, similar to the discount applied to intermittent resources, to reflect the probability of unavailability of those resources.*

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?

*An outage is the unavailability of all or part of a generating unit's capacity. The question about what is an "acceptable" forced outage rate cannot be answered in isolation, but must be answered in the context of a comprehensive planning reserve margin analysis. For example, intermittent resources have a very high equivalent forced outage rate relative to meeting system peak demand, yet because California state policy encourages the deployment of these kinds of resources, such resources will be a part of the Resource Adequacy mix. Accordingly, and inevitably, forced outage rates will vary by technology type. What must be standardized for the deployment of a standard capacity product is the way NQC is determined for such different resources.*

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?

*No. Segmenting the market into various technology types with different performance standards undermines the purpose of "standardizing" a capacity product. The NQC of such technologies may be discounted to account for their unique operating characteristics, but the standard product should not be differentiated to account for such differences.*

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?

*Please see the answer to question 2.*

- a. Should the "forced is forced" principle be continued as is, or is some modification needed in conjunction with the SCP proposal?

*Please see the answer to question 2.*

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

*To short LSEs in proportion to their individual short positions during each qualification period.*

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?

*Please see answer to question 2.*

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

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

*The purpose of either financial penalties or adjustments to NQC should be to provide a reasonable incentive for capacity to be available. Neither is a perfect mechanism. Adjustments to NQC, assuming they occur prospectively for the next delivery period, imposes risks on both the buyer and the seller of RA products that span delivery periods (e.g., multi-year products). In-delivery-period financial penalties for outages may impose a financial burden on the supplier during the wrong time, namely, when the supplier is incurring costs to return a unit to service and receiving no energy or ancillary services revenue from that unit.*

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

*Adjustments to NQC should not unduly penalize a unit for transient unavailability, and NQC should not be punitively adjusted because of a recent outage. NQC should reflect a unit's availability over a reasonably long period of time.*

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

*If the energy and ancillary services markets are producing prices that appropriately reflect what unit is on the margin and overall supply and demand conditions, or if the standard capacity product includes a peak energy rent deduction, capacity suppliers **already** have incentives to ensure their units are available to be operating to earn those appropriate market prices and to hedge against the peak energy rent deduction. Properly designed seasonal penalty rates can supplement those incentives, but care must be taken not to create punitive seasonal penalty rates that expose an undue proportion of a supplier's revenue in a narrow time frame to forced outages.*

### **Credit Requirements**

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

*The credit requirements for both RA suppliers and SCs should be based on a reasonable expectation of the costs they may incur in providing or purchasing the standard product. In no way should these credit requirements produce a undue amount of exposure.*

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

*No comment at this time.*

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?

*It should be netted.*

### **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?
- a. Which elements are crucial for the initial filing?
  - b. What additional elements can be resolved in time for an early 2009 FERC filing?
  - c. Which elements can wait for a subsequent FERC filing?
  - d. Should this be a staged or phased implementation with planned enhancements in future filings?

*a. The crucial elements are (1) defining the offering obligations for suppliers of the standard RA product, and (2) the penalties associated with unavailability.*

*b. It would be ideal to develop a registry that would prevent double selling and eliminate the need to submit buyer showings and LSE supply plans.*

*c. A bulletin board or other mechanism to support transactions could be deferred.*

*d. Yes. The standard product should be defined first, and the systems to facilitate transacting and tracking the standard product should be defined second.*

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?

*Dynegy sees no reason to defer use of the SCP to the 2010 RA program if it is approved in time to be available for the 2009 monthly showings.*

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?

*First, it seems a tall and likely unnecessary order to require that parties only transact RA using the SCP, especially immediately upon implementation. The CAISO’s goal in defining the SCP should be to create a product that market participants will want to use in lieu of anything else. Missing that mark and seeking to impose the end product on the market as a mandatory requirement will almost certainly lead to protracted litigation.*

*It seems inevitable that there will be a need for some transition period. For whatever reason, parties may be unwilling to unwind existing contracts that still meet all the requirements to qualify for the RA program. The CPUC, not the CAISO, seems better suited to consider and impose limitations on non-standard products and facilitate the transition to a SCP-only paradigm.*

*A CAISO-established registry that eliminates the need to submit separate supply plans and showings for capacity transacted using the SCP could facilitate use of the SCP.*

- 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?

*To be eligible for grandfathering, RA resources must meet all requirements necessary to qualify as RA capacity. RA requirements – including the performance obligations to be developed as part of this SCP process - should not be relaxed.*

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?

*The SCP will perform a vital function and will affect the rates, terms and conditions of service provided under the CAISO tariff. Consequently, the provisions of the SCP should be put into the CAISO tariff. Change management should be governed by the CAISO stakeholder process and the Federal Power Act Section 205/206 requirements.*

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?

*The SCP tags should reflect the RA counting rules. As the question points out, if different “flavors” of an SCP reflect different levels of availability performance, simply adding up the amount of SCP tags may not and likely will not ensure sufficient dependable capacity to meet RA requirements.*

- 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.

*No. While some things, such as energy limitations and RA counting rules, must be accounted for as part of the overall assessment of RA compliance and effectiveness, these things should not affect the resource’s tag MW.*

- c. 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 resource's tag MW should equal the resource's NQC. Failing to do so will introduce major complexities into the RA program and may undermine its fundamental purpose of ensuring sufficient available and operating resources to meet demand.*

- d. 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?

*A tag should be for a full year. Consistent with the answer to question 16, adjustments to NQC should be based on a longer, rather than a shorter, period. NQC should not be adjusted within a delivery period as doing so imposes substantial risk on both a buyer and a seller.*

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

*Tags for new resources whose dependable capacity is not a function of the security and consistency of its fuel supply (e.g., fossil-fuel-fired plants) should be based on the net dependable capacity determined during commissioning testing. (Parties could contract for the expected new capacity prior to the determination of this number but would do so understanding the risk that the actual capability of the plant may differ from the projected number). The amount of tags for new intermittent resources should be determined by applying the discount factor (i.e., NQC divided by nameplate capacity) for similar resources in the same CAISO TAC area.*

**Other Comments:**

*Dynegy appreciates the opportunity to submit these comments.*