

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 3rd 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. 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?

In general, the development of a Standard Resource Adequacy Capacity Product (“SCP”) could be beneficial in streamlining capacity transactions between market participants, but the scope of this market initiative should not aim to replace the existing Resource Adequacy structure. NCPA assumes that the SCP is intended to be used as one of a number of “tools” available to fulfill RA requirements. The current Resource Adequacy structure, as reflected within the CAISO Tariff and programs adopted by applicable regulatory authorities, has proven to be effective at improving CAISO grid reliability. As a result, the scope of this effort should be limited to the development of this tool for facilitating transactions between entities that wish to trade in Resource Adequacy capacity and not at revising or replacing the entire existing Resource Adequacy structure.

Load Serving Entities (“LSE”) that own or control their own resources should remain able to utilize their respective portfolios to self-provide capacity for Resource Adequacy compliance obligations. As a result, it may not be necessary for all capacity to be converted and/or represented in the form of a SCP tag. Only to the extent that a market participant chooses to market its owned resources might it be necessary to assign SCP tags. To the extent that LSEs can self-provide their owned capacity, it may become less important to implement SCP tags that take into account multiple types of capacity. For example, NCPA’s resources could be differentiated in the following manner:

- i. System Capacity
- ii. Local Area Capacity
- iii. Use-Limited Capacity
- iv. Load-Following Capacity
- v. Non-Generation Capacity

The development and implementation of the SCP mechanism would be more efficient and simpler to the extent that an LSE (including a Load-Following Metered Subsystem Aggregation) such as NCPA can continue to satisfy its compliance obligations primarily through the use of its own resources. This would reduce the need to develop special flavors of SCP tags for relatively limited uses such as load-following. However, if the CAISO were to eliminate the existing system entirely, it would be necessary to establish different “flavors” or attributes for SCP tags under all the types listed above.

NCPA does not believe that the current Resource Adequacy requirements should be modified to specify minimum quantities of non-use-limited capacity, but such limitations should be, and effectively are, reflected in the rules and criteria developed by the applicable regulatory authority (CPUC and LRA) for calculating Qualifying Capacity. The CPUC and Local Regulatory Authorities (“LRA”) clearly intend to maintain their respective rights to establish rules and criteria for calculating Qualifying Capacity. Continuing to permit satisfaction of Resource Adequacy obligations by LSE resources under the existing Tariff terms will also mitigate the

need for multiple flavors of SCP reflecting differences in criteria. However, the counting rules established by the CPUC or LRA, as applicable, and the deliverability assessment developed by the CAISO should remain the basis for calculating a resource's MW tag quantity. There should be a direct relationship between the quantity of tags made available from a resource and the NQC calculation for a resource.

The process for issuing tags should be similar to the process utilized today. Once a facility owner has registered its units NQC MW value with the CAISO the MW value should continue to be recognized until either revised by the facility owner or modified due to CAISO deliverability testing. If tags are necessary, tags should be issued on an annual basis for an amount equal to the registered NQC MW value of a resource.

Although one purpose of SCP tags could be the facilitation of a centralized capacity transaction market administered by the CAISO, other purposes, such as the facilitation of bilateral trading, are also possible. NCPA does not believe that it is necessary to address potential ultimate end-states at this time. The SCP mechanism should be flexible enough to lend itself to a variety of transactions and market structures, and market participants can best decide how to use the SCP. As noted above, however, self-provided resources should not be required to participate in any centralized capacity market.

The use of Resource Adequacy tags for compliance tracking and validation could improve administrative efficiencies for LSEs, CAISO, and other market participants. Considering the proposed timeline associated with this market initiative, the assumption that these tags may be acquired through a "transparent market mechanism" is not realistic, and NCPA believes that this assumption is beyond the scope of this initiative.

Roles and Responsibilities

1. 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?

The dividing line between the obligations of suppliers of Resource Adequacy capacity and those of the LSEs purchasing such capacity should be specified in the underlying contract between buyer and seller. In general, NCPA agrees that the LSE responsibility should end with the submission of SCP tags to meet its Resource Adequacy requirements. LSEs do not and will not have the information required to monitor resource performance, other than for capacity that is self-provided, but pursuant to contract the supplier of Resource Adequacy capacity is obligated to perform. To the extent that a supplier of Resource Adequacy capacity does fail to perform, and the CAISO is required to procure replacement capacity to ensure reliability, it is logical that the cost of such procurement should be allocated to the

supplier that failed to meet its contractual obligations. However, such treatment should be dictated by the terms of the contract.

The CAISO, whose responsibility is to maintain grid reliability, has the information required and the expertise to clearly communicate or propose what performance standards may be required to ensure reliable operations. The CPUC and LRAs can utilize this information within their respective decision making process to develop counting rules and criteria that meet the unique requirements of the LSE, but also support reliable operations within the CAISO. This flexibility is appropriate considering that Resource Adequacy is dealing with the establishment of planning capacity reserve requirements, which should not be confused with operating capacity reserve requirements.

Obligations of RA Capacity

1. 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 existing treatment of RA-MOO should be continued, including all exceptions for uniquely situated capacity. This model is well understood by market participants and will enable bilateral contracting parties to fully understand their performance obligations under the SCP. The existing treatment of Load-Following capacity, as reflected in the CAISO Tariff, must continue to be recognized throughout the development of the SCP to ensure that a Load-Following Metered Subsystem entity, such as NCPA, is able to continue to perform Load-Following pursuant to the Metered Subsystem Aggregator Agreement. The purpose of establishing a Resource Adequacy requirement is to ensure that sufficient capacity is available to support grid reliability. The purpose of the RA-MOO requirement is to ensure that CAISO has access to dispatch capacity designated as Resource Adequacy capacity. The terms and conditions of the Metered Subsystem Aggregator Agreement dictate the CAISO's ability to access and dispatch capacity utilized by a Load-Following Metered Subsystem entity to perform Load-Following functions, and these provisions must continue to be recognized and honored in the Tariff alongside the development and use of an SCP.

If Resource Adequacy capacity that is subject to a RA-MOO requirement is certified to provide Ancillary Services, and therefore is required to be available to supply Ancillary Services to the CAISO, that resource should be able to provide Spinning and Non-Spinning reserves as contingency only reserves.

2. 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?

This issue becomes simpler if SCP is treated as a tool rather than a program. Pending that assumption, the SCP product should be developed to recognize the different attributes of capacity products. For example, capacity provided from a Load-Following resource must be uniquely recognized. The performance obligations of capacity provided from a Load-Following resource are dictated within the Metered Subsystem Aggregator Agreement.

Facilitating Procurement, Registration & Compliance Showings

1. 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?

NCPA does not believe that a bulletin board is necessary at this stage of the initiative.

- 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?

If a bulletin board is found to be useful, it would be best managed by a third party.

2. 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

Neither elements are crucial for the initial filing, but a confirmation letter may be the most efficient mechanism.

3. 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?

A Resource Adequacy registry is not essential for the SCP effort. The existing CAISO practice is sufficient at this point in time.

- 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?

No Comments.

- 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?

The existing Resource Adequacy process is working effectively.

4. 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)?

In light of the time allocated to this market imitative, many of the elements listed above are out of scope. The existing Resource Adequacy process is working effectively.

Performance Standards for RA Capacity

1. 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?

The obligation for performance should be on the supplier, as clearly specified in the terms of the bilateral contract between buyer and seller.

2. 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 existing rules and conventions for counting use-limited resources and demand response resources, as developed by the applicable regulatory authorities (CPUC or LRA), have proven to be effective at improving CAISO grid reliability.

3. 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?

The CAISO has the experience and expertise to recommend desirable availability metrics, but the rules and conventions for developing availability metrics should be developed by the applicable regulatory authority (CPUC or LRA), and reflected in the rules and criteria for calculating Qualifying Capacity.

4. 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?

The rules and conventions for calculating Qualifying Capacity sourced from different generation technologies should be developed by the applicable regulatory authority (CPUC or LRA).

5. 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 existing CAISO backstop mechanism already addresses capacity procurement. The current Planning Reserve Margins adopted by applicable regulatory authorities has proven to be sufficient.

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

No comment.

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

Cost allocation for CAISO backstop procurement is already addressed in the CAISO Tariff.

6. 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?

Extended forced outages could be reflected in future NQC assignment, but Resource Adequacy is a Planning Reserve Margin which has been developed and accounts for forced outages. Damages associated with extended forced outages should be dictated pursuant to bilateral contracts between buyer and seller.

Penalties & Other Corrective Actions

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

NCPA does not support financial penalties enforced by the CAISO at this time. The existing Resource Adequacy rules already address non-performance. NCPA is not aware that lack of performance has inhibited the CAISO's ability to maintain reliability within the system, and therefore the development or imposition of additional penalties may be premature.

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

If a facility has proven to systematically under perform, for reasons other than forced outage, in a fashion that could impact grid reliability then a facilities future NQC assignment could be adjusted to reflect such under performance. If NQC adjustments are necessary, the future assignment of NQC to a resource should be adjusted rather than the current compliance year assigned NQC. This process will provide an incentive for generation facilities to perform without unintentionally penalizing a purchasing party (LSE).

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

See answer to question number one above.

Credit Requirements

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

NCPA does not support a CAISO enforced financial penalty regime at this point in time, therefore there is no need to implement additional credit requirements at this phase of implementation. If it is determined at some point in the future that additional credit assurances are required, such assurances must be structure to reflect realistic exposure, and can not be crafted in a way that is overly conservative.

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

See answer above.

3. 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?

See answer above.

Implementation Details

1. 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?

Please see responses listed above. A staged approach is more realistic for a proposed filing date of 2009. The impact of SCP design on existing Resource Adequacy provisions should be minimized.

2. 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?

Considering the possible impact a SCP proposal may have on existing contracts, it is more logical to target the implementation of such proposal for compliance year 2010.

3. 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?

As indicated in several of the answers above, NCPA does not understand that the end-state vision is so defined, and does not believe that it should be limited at this time. SCP tags could facilitate bilateral and centralized trading, and part of the reason there is such broad market participant support for them is that they are necessary for almost any vision of the future where capacity is bought and sold. SCP tags could be a valuable tool for trading by those who wish to do so, but they need not entirely replace the current Resource Adequacy structure. LSEs that will be satisfying Resource Adequacy obligations with their own generation will not necessarily have a desire to trade it, and should be able to qualify through the current processes. Moreover, NCPA is concerned that specialized capacity needs such as NCPA’s load-following or use-limited capacity could best be addressed outside an SCP tag system. While NCPA does not endorse a 100 % SCP end state, if such an outcome were to occur, it would likely be necessary to grandfather uses such as load-following and use-limited capacity. NCPA would expect its status as an MSSA and its contract rights to be honored and preserved.

- 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?

All existing Resource Adequacy contracts should be honored for the duration of their term (“grandfathered”). In the past, one of the main objectives in Resource Adequacy policy development has been the creation of incentives to increase long term contracting for capacity. The act of disallowing capacity that has been acquired pursuant to long term contracts would be counterproductive to this goal, and a policy decision to disallow the counting of long term contracts under this proposal would provide a strong disincentive to enter into long term contract in the future due to the risk of future policy modifications.

4. 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?

To the extent that the CAISO administered a SCP process, such rules and obligations should be reflected within the CAISO Tariff.

5. 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 current Resource Adequacy program has proven to increase reliability, and the existing counting rules and conventions developed by the CPUC and LRA are sufficient.

- 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.

- 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?

Please see responses above.

- 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?

Please see responses above.

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

Tags assigned to new capacity investment prior to construction or commercial operation should be addressed within the counting rules and criteria established by the applicable regulatory authorities (CPUC and LRA) for calculating Qualifying Capacity.

Other Comments:

NCPA is unclear how this proposal or concept would be applied to system imports. The CAISO control area is dependent on system imports and the capacity associated with such deliveries is an important element of Resource Adequacy. The development of a SCP design should not preclude and inhibit the use of system imports for Resource Adequacy compliance. As previously stated, the existing Resource Adequacy programs have proven to be effective at increasing CAISO grid reliability.