

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?

Response

Powerex is in general agreement with the characterization of the issue as presented on Slide 8 and the “Minimum Criteria for Evaluating Potential Solution Approaches” outlined on page 14, Standard Resource Adequacy Capacity Product Issue Paper.

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?

Response

Powerex believes that LSE’s have the obligation to procure a certain amount of RA capacity, year ahead, month ahead, to meet their regulator’s requirements. However, it is unclear to Powerex whether there are, or should be, explicit obligations on the LSE’s to acquire a certain portion of the RA capacity from a RA supplier with AS certification and/or limitations, either minimum or maximum amounts, on the amount of RA capacity acquired from non-standard sources.

Assuming the tagging process is robust and there is no double-counting, the obligation to perform would rest primarily with suppliers.

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?

Response

Powerex believes the obligations of the supplier of capacity should be limited to a MOO in the DA and RT. The MOO should extend beyond RA capacity and to AS only to the extent that the LSE has contracted for that AS service.

Other issues that need to be addressed are the import capacity allocation process and its interaction with any SCP and/or CCM; whether RA capacity and AS can be sold separately or must be bundled; and whether energy supply contracts qualify as RA capacity under a SCP. Also, if energy supply contracts do qualify as RA capacity, would the CAISO ever have the option to convert the energy to AS.

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?

Response

Powerex believes that the standard product should only be varied to the extent the particular non-standard product (e.g. use-limited resources) is already recognized in the MRTU tariff. The addition of other flavors would need to ensure that supplier obligations across all flavors do not create uneven expectations or potential reliability concerns.

The CAISO should also clarify if it has any reliability concerns in regards to the amount of RA capacity that is acquired from non-standard products and whether a certain amount of RA capacity must be from resources certified for AS.

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?

Response

Prior to a CCM, a bulletin board may be useful in facilitating trading of SCP to accommodate load growth, load migration, changes in NQC, or delays in new generation in-service dates.

- 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?

Response

Powerex believes the SCP could function without a bulletin board initially.

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

Response

Powerex believes that, at least initially, a simple confirmation letter transferring all or part of an underlying SCP is required and would need to be part of the initial filing.

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?
 - 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?

- 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?

Response

Powerex believes that as an interim measure, the current CAISO and CPUC validation processes should be sufficient initially. An RA Registry is not essential but would be helpful. However a bulletin board, or CCM to facilitate trading or as a back-stop, is desirable.

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)?

Response

Powerex believes that prior to the implementation of SCP, the current RA processes should remain in place with no new requirements added.

A transition plan from current RA processes should be developed for an orderly transition to the SCP. Changing RA processes/requirements mid-stream has the potential to cause confusion and/or inadvertent compliance violations.

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?

Response

Post-commercial operations for generating facilities, the obligations for performance should be on the supplier. Prior to commercial operations, Powerex suggests that the

CAISO needs to develop some procedures within the SCP tag allocation process to recognize that the NQC and in-service date may be different from expectations.

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?

Response

Powerex does not believe there are any particular challenges posed by use-limited or demand response resources from an RA obligation perspective. Use-limited and demand response resources would have the same MOO obligations as other resources and the CAISO would dispatch the use-limited and demand response resources to meet reliability and minimize costs.

However from an NQC perspective, the CAISO should ensure that the process to allocate SCP tags to use-limited and demand response resources recognizes their performance relative to standard resources. Also the CAISO should set limits on the quantity of non-standard resources that the CAISO is willing to accept as RA capacity without compromising reliability.

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?

Response

For capacity/reliability products, acceptable forced outage rates should be very low and availability should be greater than 95%. Acceptable forced outage rates should not vary appreciably by technology type. If a particular technology has a relatively high forced outage rate or a relatively low availability, the CAISO should either limit the volume of that product that qualifies as RA capacity and/or adjust its NQC/SCP tags.

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?

Response

Powerex believes the CAISO should develop different standards to reflect the unique operating characteristics of resources to ensure reliability is not compromised. For example, the CAISO limits the amount of imports eligible for RA based on import capability and the CAISO should also set limits on other resources to ensure that reliability is not compromised.

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?

Response

If the PRM is based on a single annual requirement, Powerex believes the trigger for procurement of replacement capacity might be limited to forced outages greater than one month during the summer peak. For other non-peak seasons, there can be some reliance on the annual PRM to meet reliability requirements.

If there are explicit seasonal PRM's, any forced outage greater than one month would potential trigger the need for the procurement of replacement capacity.

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

Response

The “forced is forced” principle should be continued but in regards to imports, the principle should also recognize any transmission outages between the host control area and the CAISO scheduling point.

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

Response

Powerex needs more information on how and when replacement capacity is acquired before Powerex can comment on this.

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?

Response

Powerex believes that if the CAISO has a reliability concern from a forced outage, replacement capacity should be acquired. Powerex has no comments at this time on whether this should be an LSE obligation or a CAISO run process.

Penalties & Other Corrective Actions

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

Response

Powerex does not believe that the CAISO should impose penalties in a bi-lateral SCP market but should limit its actions to adjustment to NQC (to minimize the possibility of two sanctions/penalties for a single offense). In a CAISO-run CCM, there would potentially be a role for incentives and penalties for performance.

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

Response

Powerex believes that NQC should be adjusted at least annually and as often as quarterly for particularly poor performance.

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

Response

Please see Powerex's response to 15.

Credit Requirements

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

Response

Powerex believes the existing CAISO credit requirements already cover the credit requirements/risks from the dispatch of RA suppliers in the CAISO markets.

The only new credit requirements are for RA suppliers in any CAISO-run CCM.

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

Response

Powerex has no comments 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?

Response

Powerex has no comments at this time.

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?

Response

Powerex has not formed an opinion at this time on what elements are crucial but believes that all elements in the initial filing should meet the “Minimum Criteria for Evaluating Potential Solution Approaches”.

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?

Response

Powerex’s preference would be a definitive transition from the existing RA requirements to SCP without any overlapping requirements.

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?

Response

Powerex believes that grandfathering should be limited to existing RA capacity with longer term contracts if the CAISO has no reliability concerns.

- 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?

Response

Powerex has no comments at this time without more information on what volume and type of RA resources would be grandfathered.

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?

Response

Powerex has no comments at this time.

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?

Response

Please see previous Powerex responses.

- 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.

Response

Powerex has no additional comments at this time.

- 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?

Response

Powerex agrees that the quantity of tags for a resource equals its NQC.

- 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?

Response

Powerex believes that tags should be tied to NQC. If NQC doesn't change, tags should change.

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

Response Here

Powerex suggests extending the current process where new RA capacity is given an availability rating similar to existing capacity with the same characteristics.

Other Comments:

Powerex thanks the CAISO for the opportunity to supply comments and looks forward to working further with the CAISO and others in the stakeholder process.