

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?

Assignment of SCP tags to eligible RA capacity: The issue paper does not clearly indicate whether the SCP tag will be applied to all the eligible RA units or capacity. SCP is aimed at buying and selling of RA capacity. However, entities may have some

RA capacity that is used only for self RA fulfillment. It should be clarified if SCP tagging applies to RA resources that are meeting the self-RA obligation and are not involved in the buying and selling of RA capacity either through bilateral or centralized capacity market.

- a) The SCP must address all the RA qualifying resources so that they are not sidelined and barred from participating in the RA capacity market. Since the Use Limited Resources (ULR) are qualified RA resources, they should be a part of SCP. As long as the ULRs are available to satisfy the RA needs, there is no need of limiting ULRs in the portfolio of RA resources. SCP tag for LCR RA resources seems reasonable because local area RA resources are distinct in nature in terms of the fulfillment of RA requirement.
- b) The existing counting rules and NQC determination may be reasonable. However, performance standard may be different with the nature of the resource.
- c) Since the SCP tag does the same functions as NQC RA capacity, there is no need to consider other factors for SCP tag quantity calculation.
- d) Equating the SCP tag with NQC is reasonable.
- e) ULR capacity forecast may need to be updated within a year. Assigning a SCP tag for a year and not taking into account the updates of capacity forecast within the same year could affect its performance standard that is based on SCP tag capacity. Therefore, SCP tags may need to be updated for such resources within a year also.

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?

Supplier should be held responsible for after- the- fact under-performance results. However, advanced notice of unavailability prior to the delivery period after the initial commitment should be treated as joint responsibility of both the buyer and seller. In such case buyer and seller may have an alternative arrangement to replace the unavailable SCP capacity prior to the CAISO procuring capacity as a back stop.

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?

Requirement to offer Ancillary Service(AS) for some resources with SCP tag to the extent they are qualified for AS and no requirement of AS must offer to other resources (not certified for AS) with SCP tag will create inequality among the resources with the

universal SCP tag in terms of obligation to offer. As far as practical, AS offer should be made optional.

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?

Since the availability and performance standard varies in nature with these different types of resources, it is obvious to have different flavors of SCP.

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?

Bulletin board could be a good resource.

- 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 Here

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

The Confirmation used in Western Systems Power Pool Agreement should work as this is being used currently for contracts of energy and capacity.

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?

RA registry should be optional. Entities that do not want to register into RA registry should be able to do so while fulfilling their RA requirement.

- 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?

Relatively simple interim approach should be adopted in view of transitioning.

- 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 current system is sufficient with the current validation process.

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)?

Current monthly updates on RA plan and supply plan constitute reevaluation of forecasted demand and resource availability on a monthly basis and intra monthly basis also for ULR RA resources. RA registry may be too complex to accommodate such changes every month and intra-monthly basis.

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?

Advanced notice of unavailability prior to the delivery period after the initial commitment should be treated as joint responsibility of both the buyer and seller. In such case buyer and seller may have an alternative arrangement to replace the unavailable SCP capacity prior to the CAISO procuring capacity as a back stop.

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?

Performance standard needs to be developed addressing their nature while valuing their contribution in fulfilling RA requirement.

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 definition should be no different than is currently defined by the CAISO – disconnection, separation or reduction in capacity, planned or forced, of one or more elements of an electric system. CAISO should utilize an industry accepted methodology to calculate availability metrics, such as NERC GADS. In regard to an acceptable forced outage rate, this rate would vary widely based on technology, size of

unit, age of unit, and performance requirements. It should be an industry accepted range of expected un-availability, based on technology type.

Other factors that could erroneously affect forced outage rates are line disturbances caused by wind/fire. The plant may be “available” for service, but the transmission system may not. Is there a reliable mechanism in place to insure that a plant’s forced outage rate is not affected by this particular occurrence?

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?

Performance standard needs to be developed addressing their nature while valuing their contribution in fulfilling RA requirement. Factors and standards should be developed for each specific class of resources to reflect their unique operating characteristics (for example 24/7 for thermal and “peaking” for hydro) and complex/plant limitations. For example, the expected availability of a hydro unit can be significantly different than a thermal unit due to expected fuel resources (reservoir level) or operational demand (irrigation delivery requirements).

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?

Relying on the PRM should be dependent on the duration of unavailability. Short term durations could be addressed by PRM where as longer duration of unavailability may impose reliability concerns.

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

Unit is either available to provide services, such as ancillary or RA, or it is not. The ability to shift capacity requirement from one RA resource to another RA resource in real time, as a result of a forced outage, could be one process option to analyze in regard to replacing RA capacity.

It is unclear if the forced-is-forced principle is in regard to a particular generating unit within a plant or is it evaluated as plant capability. For example, most large steam plants have one unit, while most hydro plants have several units. If a one-unit steam plant becomes forced out of service, a hydro plant having more than one unit can still be able to serve the power obligation unlike the one-unit steam plant.

- b. How should costs of replacement capacity be allocated?
- c. Seller should be responsible for the cost of replacement as well as costs due to under-performance.

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?

The CAISO should be able to evaluate the risks of unavailable resources not being replaced.

Penalties & Other Corrective Actions

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

Although financial penalties may not address the real time reliability concern when the committed resource is not available in real time, it is an incentive to perform better. A resource such as an ULR may be unavailable for a couple of days and again may back up to its full capacity within the same month. Reassigning NQC for such resources for the next period of delivery on the basis of few days of unavailability in the past may not represent its true capacity. The financial penalties and adjustments to the NQC should be based on the nature of the resource and corresponding performance standard.

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

Response Here

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

Response Here

Credit Requirements

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

Response Here

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

Response Here

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 Here

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?

It should be a staged implementation with planned enhancements in future filings to develop enhancements based on the needs learnt from experience.

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?

It depends on the readiness.

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?

It is not clear if the CAISO’s understanding of SCP covers RA capacity that is not procured (e.g. self supply of own generation to meet RA obligation).

- 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 Here

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 Here

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 Here

- 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 Here

- 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?

Equating NQC and SCP tag quantity is reasonable.

- 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 resource such as an ULR may be unavailable for a couple of days and again may back up to its full capacity within the same month. Reassigning SCP tag (NQC) for such resources for the next period of delivery on the basis of few days of unavailability in the past may not represent its true capacity. The adjustments to the NQC should be based on the nature of the resource and corresponding performance standard.

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

*Response Here***Other Comments:**

SWP may provide additional comments in later stages of the stakeholder process.