

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?

Generally, the signatories to these comments agree that the characterization on Slide 8 provides a good overview of the SCP in the RA process. Moreover, the signatories believe that there is a crucial need for the development of the standardized capacity product and urge the CAISO to take all the steps necessary to ensure that this project stays on the time schedule that will lead to a FERC filing in February 2009. More specific responses follow.

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?

The LSE responsibility with respect to the obligations of suppliers of RA capacity should end with the submission of tags. There are no circumstances where a supplier’s failure to delivery should require any action on the part of the LSE.

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?

This SCP effort should assume no changes to the current RA program and RA-MOO. It should focus on tariff amendments needed to clarify the existing obligations of the RA suppliers under a standardized capacity product. The obligations that are imposed on RA resources should be specified separately from the SCP tag to maintain the SCP as a fungible, easily traded product. To the extent that different resources have different obligations, (e.g., requirement for fast start resources to bid in real time market), the designation should not be made in the SCP tag, but in an underlying agreement between the resource and the CAISO or the CAISO tariff. The purpose of the SCP tag is to identify the resource’s NQC that is subject to the RA-MOO. Potential changes to the RA-MOO are separate issues and should be dealt with in a separate forum. For example, the issue of whether the RA-MOO should include Ancillary Services is outside the scope of this proceeding. When and if the RA-MOO is defined (either by FERC or the CPUC) as

including an Ancillary Services offer component, that obligation will be incorporated into the CAISO's tariff requirements for the RA-MOO. However, the signatories agree that uncompensated supplier obligations are inappropriate and must be avoided by the CAISO and the CPUC when considering modifications to the current RA-MOO.

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?

Pursuant to CPUC rules, RA showings distinguish RA resources according to (i) whether they are system or local resources, and (ii) whether they are restricted as to how much of an RA showing they may satisfy (known in the RA showings as Category 1, Category 2, Category 3, or Category 4). The SCP should recognize these locational and category differentiations. It is not necessary to define other "flavors" of the SCP, as this would reduce liquidity and undermine the objective of creating a standard product. The unique features associated with other forms of use limited resources and non-standard generation such as demand response and storage hydro should be addressed through the process of determining their Net Qualifying Capacity, which could specify monthly NQC values for such resources.

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?

The scope of this CAISO effort should remain focused on providing a standardized capacity product filing to FERC by February 2009. Efforts to include a bulletin board within this scope are premature and do not need to be addressed at this time, in light of the fact that there has not yet been a decision from the CPUC on its long term capacity market structure.

- 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?

As noted in 5(a) above, efforts to develop a bulletin board are not necessary at this point in time, and can be deferred to a later time, as this is not an essential element of the SCP.

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?

The CAISO focus should be on defining and incorporating into the CAISO tariff all of the obligations to which RA suppliers are subject. Once the tariff provisions are finalized, a specific form of confirmation that market participants will use for their transactions will be determined as part of the commercial negotiations. Therefore, there is no need for the

CAISO effort to focus on the form of agreement that parties will use when they buy and sell RA.

- b. If not, what is the preferred vehicle for transferring SCP tags between parties?

See response to 6(a).

- c. Is this element crucial for the initial filing

No.

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?

The scope of this CAISO effort should remain focused on providing a standardized capacity product filing to FERC by February 2009. Efforts to include a RA registry within this scope are premature and do not need to be addressed at this time, in light of the fact that there has not yet been a decision from the CPUC on its long term capacity market structure.

- 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?

The existing RA compliance showings, including the RA showing templates and the supplier supply plans are adequate for the time being in terms of tracking ownership of SCP tags. An RA Registry or bulletin board approach could be developed at a later time.

- 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?

There is no reason that an RA Registry is needed to prevent double counting. The current process of LSE RA showings and supply plans submitted by resource owners is sufficient.

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)?

As noted above, the current LSE RA compliance mechanisms and supplier prepared supply plans are sufficient for the time being. An electronic system to replace the current system of showings is not necessary for the February 2009 FERC filing.

Performance Standards for RA Capacity

General Comments: At the outset, the signatories note that they are assuming that the term “performance standards” is applying solely to “availability standards” and the component of the SCP definition and market rules that deal with whether and how RA resources will be penalized for failure to achieve certain availability metrics. (The signatories offer this clarification because the term “performance standards” could be defined to include such things as reporting requirements, maintenance scheduling requirements, or other elements of performance that are not availability related).

The signatories believe that the development of availability standards for the SCP is likely to be the most difficult aspect of developing the SCP tariff amendments. While the signatories have not yet developed a consensus position on which of the three forms of availability metrics described in the CAISO issues paper they believe will be the most effective, there is agreement that the level of the PRM, how NQC is determined, and the type of availability standards that are imposed are all interrelated. Therefore, determination of the availability standards and the consequences that occur for failure to meet the standards must carefully consider these inter-relationships. For instance, if availability standards are based on peak period availability, then the availability standards should not also impact prospective NQC determinations, so as to avoid “double dipping” of availability penalties.

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?

The signatories agree that all obligations for performance should be on the supplier and that there are no circumstances where the LSE should be required to take action with respect to performance (availability) standards. The only exception may be for certain QF facilities where the LSE who is buying the output of the QF facility is responsible for meeting the supply obligations (in these instances, however, the LSE simply is acting on behalf of the supplier).

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?

The signatories acknowledge that for some types of resources, it will likely be difficult to establish specific availability metrics – such as seasonally limited resources and perhaps demand resources. Where this is the case, the use of monthly NQC for these facilities that reflect the changes that occur with these resources could help resolve challenges due to seasonally limited resources. By addressing these challenges through the NQC determination for these resources, it will be possible to ensure that the differences between these resources will not impact the SCP tag. For instance, issues associated with Demand response resources, and whether and how they are allowed to count for RA,

and the extent to which they will be tradable, is being addressed in ongoing CPUC proceeding. Likewise, certain IOU demand response programs result in an allocation of the RA benefits of those demand response resources. The results of these CPUC proceedings will have to be incorporated into the CAISO tariff, as appropriate.

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?

It is neither necessary nor appropriate for the ISO to undertake a reevaluation of RA criteria, including when and how outages impact the availability metrics, as part of developing the SCP tariff amendments. The SCP should be designed to be consistent with the CPUC's existing RA policies. If the CAISO or stakeholders believe that the definitions of outages and their impact on unit availability metrics need to be redefined, that should be done in a separate CPUC proceeding, such that the results ultimately feed back into the CAISO's tariff.

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?

See answers to #10 and #11

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?

The PRM is being developed in a CPUC proceeding and will ultimately reflect the level of resource margin that is required for RA. Whether there will be replacement capacity secured by the CAISO, and the criteria for that procurement is currently before FERC and will be determined in that forum. If availability metrics are adopted that require a resource owner to pay a financial penalty because it did not meet the availability metric, that resource owner should always have the opportunity to provide replacement capacity in lieu of paying the penalty.

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

The SCP Tariff amendments should assume that the current RA program is unchanged and, therefore, a discussion about modification of the forced is forced principle is out of scope. However, to provide additional feedback, the signatories concur that, availability metrics should not be triggered by normal levels of forced outages, because the underlying PRM is developed on the presumption that there will be an expected amount of forced outages. Otherwise, consumers are paying for the same reliability twice, once when they pay for the PRM that is procured, and once when they pay for availability. Therefore, “forced is forced” should be continued (unless or until it is changed by the CPUC). To the extent that it is determined that replacement capacity is required, it should be the resource owner's obligation to obtain replacement capacity to meet its obligations in the SCP tag.

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

As discussed above, this issue is out of scope for the SCP tariff amendments. However, to provide additional feedback, the signatories concur that the cost of replacement capacity, to the extent that it becomes required, should be the responsibility of the owner of the resource that sold the SCP tag for the resource that is being replaced.

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 SCP Tariff amendments should assume that the current RA program is unchanged and, therefore, this discussion is out of scope. However, to provide additional feedback, the signatories concur that, to the extent CPUC policy is changed to require replacement of forced out capacity, the responsibility should always remain on the resource owner. If a resource is forced out for a period that requires replacement, it is the responsibility of the resource owner to identify and commit replacement capacity. A liquid and transparent SCP market with fungible tagging criteria will facilitate the procurement of replacement capacity.

Penalties & Other Corrective Actions

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

The signatories recognize that the financial consequences of lack of availability can apply prospectively when the lack of availability in the delivery period is used to reduce the next period's NQC, or they can be applied during the delivery period by requiring a payment from the RA resource when the availability targets are not achieved. The signatories do not have a consensus on which approach should be adopted. They do agree, however, that the financial consequences of the availability metrics should NOT be assessed BOTH during the delivery period and to future NQC determinations, as this essentially assesses a double penalty that serves only to raise costs without any additional reliability.

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

As noted above, the financial consequences of failure to meet specified availability metrics can be applied either prospectively as a reduction to NQC, or during the delivery period, but not both.

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

The signatories believe that both peak period availability metrics and general availability metrics are not necessary.

Credit Requirements

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

The CAISO issues paper suggests that it may be necessary to impose credit requirements on RA suppliers to cover the potential that financial penalties will be imposed at some point in time. The signatories are not aware of any instance where credit requirements include an assessment of the collateral to cover potential future penalties. The CAISO has been asked to provide an example of the type of credit requirements that it has imposed on entities subject to penalties, such as those that could apply pursuant to its under-scheduling tariff.

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

Signatories do not have a response for this question 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?

Signatories do not a response for this question 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?
- Which elements are crucial for the initial filing?
 - What additional elements can be resolved in time for an early 2009 FERC filing?
 - Which elements can wait for a subsequent FERC filing?
 - Should this be a staged or phased implementation with planned enhancements in future filings?

In order to meet the February 2009 FERC filing target, neither a bulletin board nor an RA Registry should be pursued at this time. The focus must remain on designing CAISO tariff provisions that fully define the standardized capacity product that applies to all resources and that incorporate the obligations that RA resources must meet, consistent with CPUC rulings.

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?

The SCP should be effective for the remainder of 2009 and 2010 and beyond.

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?

The signatories do not believe that there should be a need to transition any types of RA with respect to the applicability of the SCP, which we envision as a commercially-developed option for LSEs and RA suppliers. An exception may occur, however, if availability metrics are adopted, and approved by the CPUC that are significantly different from those in effect today, in which case there may be a need for a transition period for existing bilateral RA contracts, but those should be vetted on a case by case basis.

- 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?

See response to 23(a). The need for a transition period can be assessed after the SCP tariff amendments are finalized.

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 signatories believe that the amendments to facilitate the commercial development of the SCP will be incorporated into the CAISO tariff and that the process for changing the CAISO tariff will govern the change management process.

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?

Yes, the SCP should incorporate the existing counting rules and NQC determination process. The signatories have addressed issues relative to different “flavors” of the SCP in Question 4.

- 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.

The signatories agree that the counting rules, testing, and deliverability assessments all are components of a resource’s MW tag quantity. Performance or availability criteria will figure into the resource’s MW quantity only if the financial consequences of the availability metrics are applied prospectively as a reduction to the resources NQC. See response to Question 15.

- 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?

Quantity of tags and NQC are the same.

- 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?

Tags should be fungible on a monthly basis since RA compliance showings are monthly. The quantity of tags that come from each unit should be set annually, although for some types of resource, the amount of tags associated with the units could vary by month.

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

The CPUC has already established rules on this. The SCP tag should be assigned and effective in compliance with those rules