

Stakeholder Comments Template

Subject: Standard Capacity Product

Comments due COB Thursday 9/11/08

Submitted by	Company	Date Submitted
Michael Alcantar Seema Srinivasan Counsel to the Cogeneration Association of California	Alcantar & Kahl LLP 120 Montgomery Street Suite 2200 San Francisco, CA 94104 415.421.4143 office 415.989.1263 fax mpa@a-klaw.com sls@a-klaw.com	September 11, 2008
Evelyn Kahl Rod Aoki Counsel to the Energy Producers and Users Coalition	Alcantar & Kahl LLP 120 Montgomery Street Suite 2200 San Francisco, CA 94104 415.421.4143 office 415.989.1263 fax ek@a-klaw.com rsa@a-klaw.com	
James A. Ross	Regulatory & Cogeneration Services, Inc. 500 Chesterfield Center Suite 320 Chesterfield, MO 63017 jimross@r-c-s-inc.com	

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.

General Comments

Development of Standardized Capacity Product Must Recognize the Unique Operating Characteristics of CHP

Accommodation of combined heat and power (CHP) characteristics in the standardized capacity product (SCP) terms and conditions is crucial to the resource adequacy (RA) program and to the State's efforts to reduce greenhouse gases. A cursory review of the net qualifying capacity (NQC) data indicates that CHP provides over 3600 MW of reliable capacity to the CAISO with over 62% (i.e., over 2200 MW) of that capacity providing local reliability benefits. While comprising one of the most reliable categories of generating resources in the State of California, however, CHP, unlike other electric generating facilities, has a primary obligation to provide thermal energy to critical California industries. Importantly, this dual output capability plays a significant role in greenhouse gas reductions as recognized by the CPUC and by CARB. Bilateral contracts can be structured to recognize a CHP facility's unique operational characteristics. It is unclear whether the standardized capacity product (SCP) under consideration by the CAISO, however, would make similar accommodations to facilitate the provision of highly reliable capacity. The concern is not whether CHP can provide reliable capacity (it can and has for decades) but that the CAISO's efforts to standardize obligations and policies may compromise that ability. In short, while the focus of the stakeholder process is geared towards isolating the supplier's relationship from its relationship with the LSE, in the case of CHP, this relationship provides important operational information that cannot be overlooked.

EPUC/CAC look forward to working with the CAISO and stakeholders to ensure that the standardization process will accommodate CHP resources.

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 Here

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 RA program obligates LSEs to provide reliable service. The obligations of a supplier of RA capacity are defined in its contract with the LSE. The LSE's obligations should not end with its submission of SCP tags to meet its RA requirements. The LSE must be the entity responsible for maintaining adequate RA capacity to meet its regulatory obligations.

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?

A CHP facility's RA-related obligations are memorialized in its LSE contract. For those QFs that have signed QF participating generating agreements (PGA) operational characteristics may also be reflected in Schedule 1 of the QF PGA. The terms and conditions of the SCP must account for QF operational characteristics. One way to do that is to consider QF operational characteristics reflected in Schedule 1 of its QF PGA. For those QFs without a QF PGA, a similar form can be used to reflect facility-specific operational characteristics.

RA suppliers must not be obligated to provide ancillary services. Ancillary services are separate and distinct from RA capacity. Efforts to expand the obligation of RA supplies necessarily impacts payment for the RA capacity and the \$40 per kw-year waiver trigger penalty number which currently only considers a price for RA capacity. If the CAISO seeks to expand the obligations of RA suppliers, these other issues must be revisited for all RA suppliers including QFs.

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?

A standard product must account for CHP's unique operational characteristics. As discussed above, performance and operational characteristics reflected in the CHP/utility contract must be respected to ensure that these resources can be used to bolster system reliability.

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 Here

- 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

Response Here

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?

Response Here

- 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?

Response Here

- 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 Here

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 Here

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?

As discussed above, a CHP facility's obligations to provide RA capacity and energy should be reflected in its contract with the LSE. However, the LSE must be the entity responsible for maintaining adequate RA capacity to meet its regulatory obligations.

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?
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 Here

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 Here

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 Here

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

Response Here

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

Penalties & Other Corrective Actions

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

Response Here

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?
- 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?

Response Here

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 Here

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 Here

- 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?

As highlighted in the recent RA proceeding (R.08-01-025), there remains a problem with the QF net qualifying capacity calculation that results in double-counting of outages and an understatement of reliable capacity available from these resources. To accord QF the appropriate level of SCP tags, this problem must be addressed.

- 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?

Response Here

- 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 Here

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

*Response Here***Other Comments:**

Please refer to the general comments provided at the beginning of the template.