

Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Third Revised Straw Proposal, Posted October 3, 2013

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the Flexible Resource Adequacy Criteria and Must-Offer Obligation third revised straw proposal on October 3, 2013, and issues discussed during the stakeholder meeting on October 9, 2013.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to fcp@caiso.com no later than the close of business on October 16, 2013.

Calpine has been concerned that flexible capacity counting rules, must-offer obligations, and availability incentives are not being developed consistently. The previous version of the straw proposal introduced widely varying must-offer obligations for different resource types. In our comments on the previous straw proposal, Calpine argued that resources that are subject to less stringent must-offer obligations and hence not fully available should not count fully towards flexible capacity requirements.

Consequently, Calpine was very encouraged by the proposal in the CAISO's presentation, *Use-limited Resources and Flexible Capacity*,¹ at the October 15 RA Workshop. The proposal showed a willingness to de-rate the flexible capacity of resources that are less than fully available. While the proposal contains few details, it is a big step in the right direction. Calpine strongly encourages the CPUC and the CAISO to work together on the details of implementing the proposal.

The following comments elaborate on this issue and other issues.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. It is based on one possible measurement of the proportion of the system flexible capacity requirement to each LRA and calculated as the cumulative contribution of the LRA's jurisdictional LSE's contribution to the ISO's largest 3-

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hour net load ramp each month. Please provide comments regarding the equity and efficiency of the ISO proposed allocation. Specifically, please comment on:

- a. The ISO's proposal to use an LSEs average contribution to historic daily ISO maximum 3-hour load changes to allocate the Δ load component of the flexible capacity requirement.
- b. The potential of using historic average daily maximum 3-hour net-load ramps or time of day system maximum 3-hour load ramps (morning vs. evening ramps).
- c. What other measurement or allocation factor should the ISO consider to determine an LRA's contribution to the change in load component of the flexible capacity requirement?
- d. Should the ISO consider seasonal allocations for each component? What would these seasonal allocations look like?

At this juncture, Calpine has no specific comments on the allocation of flexible capacity requirements to LRAs.

2. The ISO believes the proposed methodology reflects causation principles. Specific to allocating flexible capacity requirements, what does "causation" mean to your organization and how would this definition be most accurately reflected in a flexible capacity requirements allocation process?

With respect to the allocation of flexible capacity requirements, Calpine believes that "causation" means that loads and resources that contribute to the need for flexible capacity should bear flexible capacity costs. The straw proposal seems to reflect this general principle. Calpine is still unsure of whether or how flexible capacity procurement obligations would be allocated to resources that contribute to flexible capacity requirements but are not under contract to an LSE. Given that the vast majority of resources that contribute to flexible capacity requirements are under contract, this concern may be mostly theoretical.

3. What are the appropriate bounds for the maximum and minimum for the error term as well as how to address year-to-year variability? What are the appropriate actions if such bounds are reached?

Calpine has no specific recommendations on bounding the size of the error term or changes in the error term, but recommends that the CAISO develop clear criteria for setting the error term. Calpine suggests that significant shortages of upward flexibility

resulting in parameter-driven energy and AS pricing caused by failures, for example, to satisfy flexible ramping constraints, might constitute a basis for raising the error term.

4. The ISO has proposed must-offer obligations for various types of resources. Please provide comments and recommendations regarding the ISO's proposed must-offer obligations for the following resources types:

- a. Resources not identified as use-limited

- b. Dispatchable gas-fired use-limited resources

1. Please provide comments regarding the ISO's proposal that would allow resources with use- limitations to include the opportunity costs in the resource's default energy bid, start-up cost, and minimum load cost.

Calpine supports the CAISO proposal to allow the inclusion of opportunity costs in energy bids and start-up costs to allow the management of use-limitations while complying with must-offer obligations. (Caps on energy bids and start-up costs, inclusive of opportunity costs, that are specific to flexible capacity resources and below the CAISO's general caps on energy bids and start-up costs may be warranted to prevent undue reliance on use-limited resources to satisfy flexible capacity procurement requirements, i.e., a resource with an energy bid that is so high that it is unlikely ever to be called may not contribute meaningfully towards flexible capacity requirements.)

2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

- c. Hydro Resources

- d. Specialized must-offer obligations (please also include any recommended changes for the duration or timing of the proposed must-offer obligation):

1. Demand response resources.

2. Storage resources.

3. Variable energy resources.

Calpine reiterates that must-offer obligations, counting rules, and availability incentives must be consistent, i.e., resources that are less available and/or subject to less stringent must-offer obligations should count less towards flexible capacity procurement

requirements. Calpine strongly supports the recent thinking on this topic reflected in the CAISO's presentation at the October 15 RA workshop and encourages the CPUC and the CAISO to implement some version of the general proposal in the presentation.²

5. The ISO has proposed a flexible capacity availability incentive mechanism. Please provide comments of the following aspects of this mechanism:

- a. The selection of the adder method as the preferred option

1. Should the ISO still consider the bucket method, the "worse-of" method, or some other method not already considered? Why?

Calpine agrees with the adder method.

- b. The price for the flexibility adder. Specifically, if the ISO proposed price is not correct, what price or data source should the ISO consider and why?

While the flexibility adder proposed by the CAISO may be plausible, the data cited by the CAISO do not support it. The CAISO cites data compiled by the CPUC on bilateral contract prices for system RA. Given that these contract prices are for a homogeneous product, there is no basis for the CAISO's conclusion "...that lower quality capacity will have a lower price, while newer and higher quality capacity (i.e. more flexible capacity) will receive a slightly higher capacity price."³ To the extent that resource "quality" influences system RA prices, lower quality resources actually may require higher prices to compensate for greater risk of outages and exposure to SCP penalties. Calpine conjectures that the price differences in the CPUC's sample of contracts reflects month-to-month variations in RA prices, not resource quality differences, i.e., system RA prices are generally higher in summer months than in winter and shoulder months.

- c. The interaction between the existing SCP and the proposed SFCP

- d. The proposed SFCP evaluation mechanism/formula

1. The formula used to calculate compliance (including the treatment of long-start and use-limited resources)

Calpine reiterates its view that resources that are not available in real-time do not provide the same contribution to reliability as resources that are available in real-time. This lower level of reliability should be reflected either in counting rules or in the calculation of SFCP incentives.

² *Use-limited Resources and Flexible Capacity*

³ *Third Revised Straw Proposal* at 43.

2. The treatment of forced and planned outages
3. The minimum availability thresholds for use-limited resources
- e. The proposed substation rules for forced outages

The proposed substitution rules for flexible capacity that is forced out seem reasonable, but the straw proposal does not address a closely related topic, i.e., the substitution rules for flexible capacity that is sold as generic. Calpine requests that the CAISO not require the replacement of flexible capacity that is sold as generic with capacity of equivalent flexibility. (The fact that the CAISO has required the replacement of local capacity sold as generic with capacity in the same local area has limited and complicated opportunities to sell generic capacity from resources in local areas, particularly in local areas that have more than sufficient capacity to meet local capacity requirements, such as the Greater Bay Area.)

- f. Please also include comments regarding issues the ISO must consider as part of the evaluation mechanism that are not discussed in this proposal.
6. The ISO has proposed to include a backstop procurement provision that would allow the ISO to procure flexible capacity resources to cure deficiencies in LSE SC flexible capacity showings. Please provide comments regarding the following issues of ISO's proposed flexible capacity backstop procurement proposal:
 - a. The inclusion of the adder methodology
 - b. The opportunity for LSEs to provide a list of uncommitted flexible capacity that can be used to help cure flexible capacity deficiencies
7. Are there any additional comments your organization wishes to make at this time?