

Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Fourth Revised Straw Proposal, Posted November 7, 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 fourth revised straw proposal on November 7, 2013, and issues discussed during the stakeholder meeting on November 13, 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 November 27, 2013.

As discussed below, Calpine's primary concern about the straw proposal remains the potential mismatch between resource-specific must-offer obligations and flexible RA counting rules. Resources with more limited availability and/or a less onerous must-offer obligation should count less towards flexible capacity procurement requirements. If the CAISO continues to advocate widely varying must-offer obligations for different resource types, then the flexible RA counting rules, currently under development at the CPUC, must be adjusted accordingly.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. As detailed in the fourth revised straw proposal¹ and at the 11/13 stakeholder meeting PG&E has put forward an alternative allocation methodology. Please provide comments for each of these proposals, particularly as they relate to cost causation. If your organization has a preference for one over the other, please state your preference and why.

Calpine supports the first element of the PG&E proposal, i.e., the idea that flexible capacity procurement requirements should be allocated to all variable energy

¹ PG&E's specific proposal can be found at http://www.caiso.com/Documents/PG_E-Comments-FlexibleResourceAdequacyCriteriaMustOfferObligation-ThirdRevisedStrawProposal.pdf.

resources, including those that are not under contract to any LSE within the CAISO. This element of the proposal addresses a loophole in the CAISO proposal that Calpine has identified in comments on previous versions of the proposal.

Calpine does not support the second element of the PG&E proposal. PG&E's proposal to allocate flexible capacity procurement requirements to load based on LSEs' largest net ramps, regardless of when they occur, ignores the fact that flexibility capacity requirements are driven by the largest *coincident* net load ramps. Ramps in load that are not coincident with the largest net load ramps do not drive flexible capacity requirements and hence should not drive the allocation of flexible capacity procurement obligations.

At both the November 13 stakeholder meeting as well as the November 15 MSC meeting, there was considerable discussion of whether different allocations of flexible capacity procurement to load are sufficiently robust given the inherent uncertainty about exactly when net load ramps are likely to occur. Calpine believes that the CAISO's proposal to calculate allocations to load based on the five largest net load ramps in a month strikes a reasonable middle ground between an allocation based on contributions to the single net load ramp peak in a month and PG&E's proposal, which does not reflect coincidence at all.

2. The ISO believes that demand response resources should have the opportunity to provide flexible capacity. The ISO has proposed how demand response resources could do so. Please provide comments on the ISO's proposal. Specifically, please identify concerns with the ISO's proposal and offer potential solutions to these concerns. Additionally, please comment on the proper forum (ISO, CPUC, etc.) where these concerns should be addressed.

Calpine believes in non-discriminatory procurement, i.e., resources that can satisfy uniform and clearly-defined performance requirements should be eligible to compete to satisfy the requirements. Consequently, Calpine does not generally support the CAISO's proposal to implement widely varying resource-type-specific performance requirements. Nevertheless, such widely varying performance requirements could lead to procurement that is effectively non-discriminatory to the extent that flexible capacity counting rules reflect resource-specific performance requirements, e.g., a 1 MW demand resource that is available only during a limited window of hours has a lower Effective Flexible Capacity (EFC) than a 1 MW resource with unlimited availability.

Calpine believes that resource counting rules are currently being addressed in the CPUC Resource Adequacy proceeding (R.11-10-023). Calpine looks forward to learning more at upcoming workshops about the Effective Ramping Capability (ERC) modeling methodology that CPUC staff has proposed to calculate the EFCs of DR and storage. Potentially, the methodology could be extended to other use-limited resources.

Because flexible capacity counting rules and performance requirements are both important aspects of the implementation of flexible capacity procurement obligations, Calpine urges the development of counting rules and performance requirements in an integrated fashion.

As indicated in SCE's comments on the Third Straw Proposal and by multiple members of the MSC at their November 15th meeting, another potential approach to address operational flexibility requirements is through reliance on spot energy and AS markets. Eligibility and performance requirements for spot markets are unambiguous. A demand resource, or other use-limited resource, could capture spot market revenues in a specific hour to the extent that it is available in the hour. Rather than determining how a use-limited resource would count towards flexibility requirements based on ex ante projections of its availability during the largest net load ramps—the CPUC's apparent approach to flexible RA counting rules—reliance on spot markets would reward all resources, including use-limited resources, for their actual availability on an ex post basis.

3. Please provide comments and recommendations (including requested clarifications) regarding the ISO's proposed must-offer obligations for the following resources types:
 - a. 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.
 2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.
 - b. Specialized must-offer obligations:
 1. Demand response resources
 2. Storage resources
 3. Variable energy resources

Calpine reiterates its general comment on previous versions of the proposal that resources with less onerous must-offer obligations should count less towards flexible capacity procurement requirements.

4. At the 11/13 stakeholder meeting there a significant amount of discussion regarding the appropriate method for setting the price for the proposed flexible capacity availability incentive mechanism. Please provide comments about how this issue might be resolved.

Calpine agrees with the CAISO that penalties should be reasonable relative to the price of generic RA and sufficient to induce compliance. It is not obvious that the proposed penalty price of \$45.96/kW-year (i.e., \$3.83/kW-month) is reasonable relative to the price of generic RA. The price is significantly higher than prevailing prices for generic RA. For example, the CPUC's *2011 Resource Adequacy Report* suggests that the median price of RA was \$2.20/kW-month for deliveries in the 2010-2012 time frame.

With respect to process, one or a few stakeholder meetings dedicated to the topic likely could yield an acceptable price. The meetings should address both the level of the price as well as the process for updating it, perhaps as more pricing information for the flexible RA becomes available.

5. The ISO has proposed an SFCP evaluation mechanism/formula that weights compliance with the real-time must offer obligation heavier than the day-ahead must offer obligation. Please comment on:
 - a. The merits of using such a weighting mechanism relative to the "lesser of" proposal from the previous proposal
 - b. The relative weights between the real-time and day-ahead markets

Calpine supports the change in the proposal to weight compliance in real-time more heavily. This change in the proposal seems to address the primary motivation for the introduction of FRACMOO, i.e., a perceived insufficiency of offers with which the CAISO can manage actual operations. In addition, weighting real-time compliance more heavily effectively would penalize day-ahead self-scheduling less severely. Day-ahead self-scheduling has been an important tool for Calpine to manage unit commitments and limit the cycling of its CCGT plants.

6. There were several clarifying questions asked at the 11/13 stakeholder meeting regarding substitution of flexible capacity that is on forced outage. Please provide comments and / or questions (and potential answers) regarding any additional clarifications the ISO should make in the next revision to clarify this aspect of the proposal.

Calpine has no comments on this question at this time.

7. Please provide comments regarding how, or if, the SFCP adder price and the flexible capacity backstop price should be related.

Calpine has no comments on this question at this time.

8. Are there any additional comments your organization wishes to make at this time?

The fact that many generally non-dispatchable resources, such as VERs, currently count towards resource adequacy requirements may partly cause insufficiency of offers in CAISO markets and hence conclusions that new flexible RA products are necessary. Calpine believes that the RA counting of many VERs will be reduced downwards as the result of the application of ELCC methodologies to the calculation of NQCs for VERs, as required by state law and currently under way at the CPUC. Calpine suggests that reduced NQCs for VERs may lead to additional procurement of dispatchable resources to satisfy generic RA obligations and hence increase the volume of bidding in CAISO markets.