

California Independent System Operator
Flexible Resource Adequacy Criteria and Must-Offer Obligation

**Comments of the California Wind Energy Association
on the October 13, 2013 CAISO Third Revised Straw Proposal on
Flexible Resource Adequacy Criteria and Must-Offer Obligation**

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Introduction

The California Wind Energy Association (CalWEA) appreciates the opportunity to comment on the CAISO's third revised straw proposal on Flexible Resource Adequacy Criteria and Must-Offer Obligation (FRACMOO).

CalWEA commends CAISO for several improvements in its third revised straw proposal – these improvements were mainly in line with CalWEA's comments on the second revised straw proposal. However, CalWEA strongly believes that several additional changes, discussed in detail below, still need to be implemented in the next version of the FRACMOO proposal.

1. If contingency reserve capacity is to be reserved as part of flexible capacity procurement, it should be subtracted from the RA Capacity Requirement

CAISO proposes to calculate the flexible capacity requirement for any month of the year by adding two system capacity needs:

- i) Largest three-hour contiguous ramp during the month; and
- ii) Maximum contingency reserve for that month.

The inclusion of the latter term simply points to CAISO's abundance of caution in making sure that the capacity needed for system flexibility and for contingency reserve do not overlap. CalWEA believes that there are more effective ways to prevent such overlap than the approach

proposed by the CAISO, which is tantamount to redundant long-term procurement of contingency reserve (as we explained before, RA capacity procurement at 115% to 117% of peak annual/monthly demand is specifically intended to ensure long-term procurement of contingency reserves). However, if CAISO still intends to procure the flexible and contingency reserves capacities simultaneously, the amount of contingency reserve procured in this fashion should be subtracted from the LSE's RA Capacity Procurement Requirement. Adopting this simple change in the RA Capacity Procurement Requirement would be similar to the paradigm in the CAISO's Flexible Capacity availability incentive mechanism, the "Adder Method."

2. Imports, especially in light of FERC Order 764 reform, should be allowed to participate in offering flexible capacity

We note that CAISO continues to hold that imports will not qualify as flexible capacity, yet has never provided a solid argument justifying this exclusion, especially the exclusion of imports with 15-minute ramp capability.

3. The flexibility of renewable resources built into most power purchase agreements for these resources should be accounted for in calculating the flexible capacity requirement

CalWEA continues to urge the CAISO to work with the LSEs to explore the use of curtailments enabled in the PPAs to mitigate the net load ramps at least during those few time-periods during the year when the largest three-hour contiguous ramps are expected to occur. Utilizing this existing capability would reduce the monthly and annual flexible capacity requirement for the entire system and the participating LSE in particular. By reducing the need for flexible capacity requirements, renewable resources can make a significant contribution to resolving the issue.

4. The allocation of the flexible capacity requirement to LSEs can and should be modified to correspond to costs caused by such LSEs as a result of their procurement decisions

CalWEA is encouraged that the CAISO has modified its proposed method for allocating the monthly flexible capacity requirement for a calendar month, corresponding to the single largest three-hour contiguous ramp forecasted for that month ("maximum ramp event"), to more closely reflect individual LSE's contribution to that ramp for that single event. However, this is just the minimum step that CAISO could take in this area.

To properly reflect cost-causation, CAISO should isolate the exact contribution of each LSE to the maximum ramp event per the approach CalWEA suggested in our last round of comments via the relationship between the SCs on one side and loads and resources

represented by that SC on the other side. This contribution should then be used for allocating the flexible capacity procurement obligation to the LSEs, either directly by the CAISO or via Local Regulatory Authorities (LRAs).

5. CAISO should strictly enforce the obligation of flexible capacity resources to provide economic bids in the DA and RT markets

CalWEA continues to advocate that CAISO should use its bid validation rules to ensure that flexible capacity resources that were selected and paid to provide flexible capacity submit economic bids into the DA and RT markets. However, CAISO continues down the path of using performance incentives/penalties in the fashion that are used to reward/penalize RA resources for their availability – perhaps ignoring the fact that the system always has some “free” RA capacity for CAISO to rely on if insufficient committed RA capacity shows up in real time while there are no guarantees that there will be some flexible capacity available in real-time. If CAISO insists on using such an incentive-based approach to ensure the availability of sufficient flexible ramp capacity reserves, we propose that CAISO supplement the approach with two enhancements:

- The penalties for unavailability should, at a minimum, reflect the actual cost incurred to deal with the flexible ramp shortage; and
- The CAISO should study the incidences of flexible capacity shortage based on lack of scheduling/bidding, and if the number of such incidences increases beyond a threshold, introduce the concept of bid validation rules to ensure participation by selected flexible capacity resources.