

**California Independent System Operator
Flexible Resource Adequacy Criteria and Must-Offer Obligation – Phase 2**

Initial Comments of the California Wind Energy Association

Contact Information: Dariush Shirmohammadi
e-mail: dariush@shirconsultants.com
phone: 310-858-1174

Nancy Rader
e-mail: nrader@calwea.org
phone: 510-845-5077

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Introduction

The California Wind Energy Association (CalWEA) appreciates the opportunity to participate in the California Independent System Operator's (CAISO's) Flexible Resource Adequacy Criteria and Must-Offer Obligation – Phase 2 (FRACMOO-2) Working Group. Our comments here reflect the preliminary nature of the CAISO's thinking on this matter and focus on the most basic aspects of this CAISO initiative.

CalWEA's initial comments on Phase 1 of this initiative (FRACMOO-1) addressed the basic premise of the CAISO initiative as follows:¹

The fundamental premise of the CAISO FRACMOO proposal is clear. FRACMOO is principally intended to make annual and monthly capacity payments to existing flexible resources, mainly gas-fired generators, for a capability they already have and have been providing to the grid without such long-term capacity compensation in the past. CalWEA understands this premise and supports it. CalWEA understands that a major shift in services from flexible resources is taking place as net load variations are increasing. This shift in services is moving away from providing basic Resource Adequacy (RA) capacity to providing ramping services (flexibility capacity) during certain parts of the day. Hence, even though flexible capacity resources have been providing ramping services without long-term capacity compensation in the past, the RA payment has allowed these resources to operate in a financially viable

¹ <http://www.caiso.com/Documents/StakeholderCommentsMatrix-FRACMOO-SecondRevisedStrawProposal.pdf>
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fashion. However, in an environment where basic RA capacity (as well as energy) needs are increasingly met by renewable resources, the resources needed to meet ramping requirements (caused in part by renewables) are expected to experience significantly reduced RA capacity and energy revenues. At the same time, these same resources will be required to provide more start-and-stop operation as well as ramping services, incurring more costs due to operation in less efficient zones as well as the added wear and tear. Under these new circumstances, compensating flexible resources for their flexible capacity is not only fair but also necessary to ensure that these resources remain available to provide needed services. Absent this new payment stream, existing resources could potentially cease to operate, leading to a need for new flexible resources likely at a much higher cost to ratepayers. At the same time, under the CAISO FRACMOO proposal, the proper tradeoff for receiving capacity payments would be for these flexible resources to be obligated to offer that flexible capacity as economic bids in the CAISO Day-Ahead (DA) and Real-Time (RT) markets.

We have repeated our starting comment on the FRACMOO-1 initiative since we find it to be applicable to the FRACMOO-2 initiative as well. FRACMOO-2 is intended to better differentiate between the system's generic and flexible RA capacity needs. For that purpose, this initiative takes a more comprehensive look at system flexibility needs not only in terms of the availability of flexible capacity to address the system's multi-hour upward ramping needs (per FRACMOO-1) but also in terms of the availability of flexible capacity to address curtailment of self-scheduled resources – mainly Variable Energy Resources (VERs). The results of a properly designed analytical framework as part of this initiative would allow CAISO and its market participants to make better choices (from both economic and reliability standpoints) between the procurement of flexible capacity and the curtailment of VERs. Such an analytical framework should encourage VERs to offer their curtailment as a flexibility resource, allowing CAISO to make the most economically efficient decision regarding curtailing such VERs or buying other sources of flexibility – such as downward flexibility from demand response or storage resources. The same analytical framework should allow demand-response (DR) and storage resources to better value the services that they offer to the system operator, hence, assisting in economic investment decisions in such resources.

CalWEA notes that CAISO's sole document on this initiative, the presentation slides from the July 22, 2015 working group meeting, does not offer sufficient details to allow us to make any substantive comments on the FRACMOO-2 initiative at this time. We are, however, hopeful

that future FRACMOO-2 working group meetings will help shape CAISO's ideas in greater detail, allowing for more substantive comments from all stakeholders. At this time, CalWEA's main concern is the complexity with which the basic FRACMOO-2 concepts are being conceived and presented. We are concerned that such complexities, in contrast to the simplicity of the original FRACMOO initiative, could result in the development of an implementation framework that is neither readily understandable nor straightforward. To CalWEA, the simplicity with which FRACMOO-1 was able to be implemented as a multi-hour capacity product market was one of the main advantages and selling points of the original initiative. We are concerned that FRACMOO-2 may not benefit from the same attribute as we attempt to translate it into practice. We encourage the CAISO to place a priority on simplifying the process.