

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE:**

**FRACMOO Phase 2,**

**August 18, 2015 Working Group**

Submitted by	Company	Date Submitted
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The California Energy Storage Alliance (CESA)<sup>1</sup> offers these comments on the Flexible Resource Adequacy Capacity and Must Offer Obligations (FRACMOO) Phase 2 Working Group meeting and materials held on August 18, 2015.<sup>2</sup>

Following the second Working Group meeting, CESA believes that further consideration of capacity ‘product’ changes is appropriate to ensure the available monthly and annual fleet is appropriately geared to meet the CAISO’s operating needs, including dealing with over-generation and ‘pmin-burden’ challenges. This view is based on the assessment that a) the CAISO’s over-generation and p-min burden are material and real challenges to system reliability that are not explicitly considered in the CPUC’s annual Resource Adequacy product suite and b) that capacity product adjustments need to be considered in order to address these challenges, in close coordination with the CPUC. In this regard, CESA’s comments repeat key views raised in comments to the July Working Group meeting. While the presentation of Southern California Edison (SCE)<sup>3</sup> provided useful reviews of the performance and role of the 3-hour upward ramping “Flexible RA” product, the proposal failed to address the CAISO’s need. Because of this, CESA does not support the SCE proposal at this time.

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<sup>1</sup> The views expressed in these Comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (<http://storagealliance.org>)

<sup>2</sup> CAISO FRACMOO 2 Working Group meeting, August 18<sup>th</sup>, 2015: <http://www.caiso.com/Documents/PresentationProposal-FlexibleRACriteriaMustOfferObligation.pdf>

<sup>3</sup> “Durable Flexible RA Proposal”, Southern California Edison, CAISO FRACMOO 2 Working Group Meeting, August 18, 2015: <http://www.caiso.com/Documents/PresentationProposal-SouthernCaliforniaEdison-FlexibleRACriteriaMustOfferObligation.pdf>

**1. The current and expected over-generation and p-min burden effects create real operating challenges and risks to the CAISO for which consideration of a capacity solution is appropriate.**

CESA believes that over-generation and p-min burden effects are real and likely require a capacity product solution. In separate CAISO initiatives, and in close concert with CPUC proceedings, spot market solutions to these problems should also be addressed. Spot market solutions can address the actual daily, hourly, and sub-hourly challenges of economically dispatching and balancing the wholesale electric system, while capacity solutions line up a fleet with the capabilities to reliably accommodate this need. CESA believes such spot market changes are generally beyond the scope of the FRACMOO initiative. Meanwhile, CPUC proceedings that may especially inform these discussions and plans include the Resource Adequacy proceeding and the Long-Term Procurement Plan (LTPP) proceeding.

While ‘steel’ in the ground may not change overnight, capacity product payments and related must-offer obligations can have real near-term effects both on grid resources and on grid operations. For instance, flexible capacity payments may create a willingness to submit more economic bids. ‘Allowance’ capacity payments, as described in the CAISO’s proposal, may encourage renewable resources to provide bids for economic curtailment. Other generators may seek more flexibility through on-site equipment upgrades. Capacity payments to the ‘right’ resources can prevent planned retirements from certain resources while allowing for retirements by resources that no longer providing sufficient value to the grid. Capacity payments can prompt participation in one market vs in another. Based on capacity payments, maintenance schedules can be deferred or modified, and many other market responses may occur. To CESA, it is unreasonable to assume the grid’s resources are unresponsive to the effects of capacity payments or that capacity product structures can have no effect in addressing over-generation and p-min burden challenges. Fundamentally, the RA market has an important and compelling role in ensuring that a workable fleet of resources ‘shows up’ in the market and participates in ways that allow the ISO to reliably operate the grid.

For energy storage, capacity payments for the ability to absorb and address over-generation and p-min burden challenges will likely influence resource designs, contract practices, planning, bidding, and other aspects of participation in the California grid.

While the CAISO has sought to highlight the growing challenges of managing a grid with increasing over-generation and p-min burdens, the CAISO, perhaps in conjunction with the Department of Market Monitoring, provide information on how capacity product changes can effect market behaviors. In addition to the data provided by the CAISO on the growing challenges with Area Control Error (ACE) and other grid operations challenges, data pointing to the benefits of a capacity market solution should also inform the initiative. For instance,

do areas without capacity markets require dramatically higher or no spot energy price caps?  
Do capacity-product based MOOs change spot market behavior?

**2. Points raised in CESA’s earlier July 22, 2015 FRACMOO 2 comments remain relevant.**

In earlier comments, CESA expressed concerns that the full ramping capability of energy storage solutions may be undervalued by the CAISO’s current FRACMOO 2 rules. CESA requests that any CAISO FRACMOO 2 proposals address this potential problem. CESA supports further discussion of the “Flexible, Inflexible, and Allowance” capacity product concept, as this approach seems to broadly address both the CAISO major peaking, flexible, and over-generation or p-min burden operating challenges, while continuing to work within and build from the CPUC-administered Resource Adequacy program.

CESA also recommends further discussion on the Must-Offer Obligations (MOOs) needed for Allowances, as well as whether reforms to MOOs for other capacity products could better promote reliable grid operations.

**3. SCE’s FRACMOO 2 capacity product proposal<sup>4</sup> inadequately responds to the CAISO’s over-generation and p-min burden challenges and should not be pursued.**

CESA thanks SCE for presenting its views and for gathering and assessing the performance of the 3-hour upward ramping product. This type of activity is appropriate and useful for a working group.

SCE’s proposal, however, fails to provide a capacity solution to the CAISO’s widely expressed operating challenges of over-generation and p-min burden. SCE’s proposal states that capacity products seemingly cannot adequately address over-generation and p-min burden challenges. CESA disagrees, as discussed above. CESA remains unclear if SCE supports spot market reforms such as a lower bid-floor.

The CAISO should limit any further consideration of the SCE proposal. Further consideration of SCE’s proposal may delay progress on capacity market solutions to over-generation and p-min burden challenges. SCE’s plan also may undervalue ‘the right’ capacity by leaning toward a simpler capacity product design, planning to ‘true up’ the capacity needs, on occasion, through out of market actions, i.e. through established plans to use the Capacity Procurement Mechanism. Oversimplified designs for the suite of capacity products can lead to problematic resource retirements and distort the valuation of market resources. In line with the market efficiency benefits of the Centralized Capacity Market solution which SCE previously supported, CESA believes

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<sup>4</sup> “Durable Flexible RA Proposal”, SCE.

that the major needs of the fleet can and should, within reason, be reflected in the capacity product design.