

Stakeholder Comments Template

Subject: Standard Capacity Product

Submitted by	Company	Date Submitted
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The comments herein are filed jointly by intervenors FPL Energy, NRG Energy, Reliant Energy, San Diego Gas & Electric Company, and Southern California Edison Company, collectively, the California Forward Capacity Market Advocates (CFCMA).

SCP Overview

- Slide 8 of the “Review of the Standard Resource Adequacy Capacity Product Issue Paper” presentation (<http://caiso.com/2030/2030a6e025550.html>) provides an overview of the SCP in the RA Process. Do you agree with this characterization? If not, how would you modify it?

Answer: Slide 8 of the CAISO presentation and Section 3.1.1 of the August 27 whitepaper describes how the SCP will work within the RA process. These elements are addressed in turn:

- CAISO assigns SCP “tags” to eligible RA capacity with the quantity depending on the resources’ NQC. The quantity of tags a resource can obtain will be based on the resource’s maximum capacity (e.g., nameplate P-max for a generator, certified demand response capability, etc.), adjusted for applicable RA counting rules, CAISO deliverability assessment, and other performance factors. Thus the quantity of tags a resource can obtain will generally align with the concept of Net Qualifying Capacity (NQC) used today for RA purposes

We agree; the CAISO should qualify the NQC of all potential capacity resources, including existing generation, distributed generation, and other demand-side resources using non-preferential criteria that fairly balance certainty of supply and broad participation. The qualification process creates “SCP tags” issued to each resource owner equal to the resource’s NQC. This NQC determination should be generally as is done today, including section 40.4.4 of the CAISO MRTU tariff, which provides for Reduction for Testing. Since testing will serve as a basis for attributing the amount of tags to a capacity resource for a particular delivery period, this effort should 1) include testing in the NQC definition above; and 2) use this forum to specify the

process, timing, and applicability of annual capacity testing. ISO New England has adopted a quantity definition equal to the median of the previous five years' test values, which reduces the volatility of NQC.

2. Parties buy and sell SCP tags either bilaterally or through a centralized market.

We agree.

3. Use of SCP tags to meet RA requirements.

We agree. The current LSE-specific RA compliance tracking system could be streamlined if all LRAs relied on the same SCP – a single standardized capacity tag assigned based on physical capacity and location – as demonstration of RA compliance.

4. Ensuring Performance of RA Capacity:

- Registration of capacity as RA subjects it to CAISO Tariff performance requirements, defined for the MRTU market structure
- CAISO tracks performance metrics for all RA capacity
- Compliance incentives are incorporated in CAISO Tariff

We agree. When the SCP tags of a resource have been used to meet the RA requirements, that resource becomes subject to the CAISO Tariff SCP requirements, including performance requirements and compliance incentives and penalties. Because these are CAISO Tariff requirements, CAISO is the entity that tracks compliance with those requirements and assesses compliance incentive charges or credits.

Roles and Responsibilities

2. What is the dividing line between the obligations of suppliers of RA capacity and those of the LSEs? Does the LSE's responsibility end with its submission of SCP tags to meet its RA requirements, or would there be circumstances where a supplier's failure to deliver required some action on the part of the LSE whose submitted RA capacity is affected?

An LSE's obligation is to secure, whether by ownership, bilateral contract or a centralized capacity market, sufficient SCP tags to meet the RA requirement set by its LRA. The LSE's responsibility ends once it has met its RA requirements with its submission of SCP tags to meet its RA requirements. A supplier's failure to be available, i.e., to satisfy its must-offer obligation, should subject the tagged capacity to applicable CAISO performance penalties, but such a failure should in no way involve the LSE. A fundamental premise of sound regulation is that responsibility needs to fall to those parties who have control, and that financial repercussions follow that responsibility. An LSE that has secured SCP tags from a particular resource is not making the capital investment, maintenance, and operational decisions that affect whether a supplier will make that capacity available to the market, and so it would be unreasonable to hold the LSE financially responsible for it.

Obligations of RA Capacity

3. What is required of the RA capacity or supplier within the delivery period? In particular, what modifications to the existing RA-MOO are needed? Do parties agree that RA capacity must be available to provide Ancillary Services to the extent they are certified? What other obligations need to be specified in the RA-MOO?

Internal RA resources, including intermittent and demand response RA capacity, must offer into all CAISO energy and ancillary service markets for which they are capable of performing, in accordance with the CAISO tariff. (That is, the RA-MOO should be extended to include Ancillary Services to the extent they are certified.) Internal RA resources must also coordinate outage reporting and maintenance scheduling with CAISO, also in accordance with the CAISO tariff.

External RA resources must offer into the CAISO day-ahead energy, and ancillary service markets for which they are certified and, if ultimately scheduled as interchange with adjacent Balancing Authorities, then also into the CAISO real-time energy market, all in accordance with the CAISO tariff.

Capacity not committed as an RA resource does not have a must-offer obligation into the CAISO markets subsequent to MRTU implementation. All internal generating resources, with or without an RA commitment, must advise CAISO as to outage reporting and maintenance scheduling and make reasonable efforts to accommodate CAISO requests for rescheduling of such maintenance, in accordance with the CAISO tariff.

4. How standard is standard? How does a “standard” product deal with details like Local Capacity Requirements (LCR)? Use limitations? Non-standard generation, such as demand response or pumped storage hydro? Are there other flavors of the SCP that need to be defined?

The standard product is just that: standard. There should be one SCP: applicable in meeting either system or local RA obligations depending on the physical location of the associated RA resource, subject to consistent standards and requirements. It is essential that, once the SCP tag is sold from a particular resource, it is completely fungible for any other SCP tag, with one exception: location.

An SCP tag should include a Local Area designation. LRAs (in conjunction with the CAISO) may establish RA requirements that include a locational requirement. The rights and obligations of the SCP, however, do not vary with location (with minor exceptions relating to market power mitigation).¹

An SCP tag should not include other attributes, such as use-limited resources, demand response and other non-standard attributes. Although, as noted, above, the exact details of how these non-standard resources will meet their Tariff obligations may vary, one SCP tag from such a resource must be fully fungible with one SCP tag from any other resource (in the same Local Area, if applicable). In order to achieve this interchangeability, the rules that establish NQC for each resource should be set to achieve “reliability equivalence” for each SCP tag.

¹ The CFCMA design proposal, for example, places more stringent market surveillance standards on capacity resources in Local Areas.

We note that the SCP and associated performance obligations, incentives and penalties contained in the CAISO tariff need to apply to all entities, irrespective of their Local Regulatory Authority.

Facilitating Procurement, Registration & Compliance Showings

5. Stakeholders have suggested that the scope should include a bulletin board to facilitate transactions.

- a. What do parties envision as the scope and functionality of such a bulletin board?

This CAISO process should focus narrowly on the development of the SCP and the associated performance standard and compliance incentives and penalties in the CAISO Tariff. The SCP is required regardless of whether RA is committed only bilaterally or both bilaterally and through a centralized capacity market. The SCP should be defined to allow efficient transactions through either means by assuring that SCP tags are, indeed, standard and highly interchangeable.

CFCMA believes that any CAISO effort spent defining or developing an electronic bulletin board is an unnecessary and harmful distraction from the essential business at hand: defining the SCP. Further discussion, beyond defining the SCP, should be addressed after the CPUC has made a decision in the RA Phase 2 process addressing the structure of the RA market.

- b. Is this element essential to getting the SCP up and running?

No. To the contrary, it would distract from the timely development of the SCP.

- c. Could the SCP function without it?

Yes. No other RTO operates an electronic bulletin board for capacity, but many have a well-defined capacity product with performance standards enforced through their tariffs.

- d. Can this element be deferred until a later time?

To the extent such an effort is even appropriate for the CAISO, it can and should be deferred until after the development of the SCP and after the CPUC has made a decision in the RA Phase 2 Track 2 proceeding (CPUC R.05-12-013).

- e. Could it be developed by a third party?

CFCMA believes the development of a bulletin board would be a costly and unnecessary distraction from development of a centralized forward capacity market. In any event, the planning, financing and operation of a bulletin board should be left to a third party, appropriately shifting development and ongoing costs and risks from the CAISO.

6. What is the preferred vehicle for transferring capacity tags between parties?
 - a. Should a confirmation letter be used to procure RA capacity? If so, what should be the form and standard content of such confirmation letter?
 - b. If not, what is the preferred vehicle for transferring SCP tags between parties?
 - c. Is this element crucial for the initial filing

The questions above refer to commercial transactions that are beyond what is required by the CAISO in this process to standardize the product. The CAISO's role now is to create a standardized, tradable SCP tag, assigned to suppliers equal to their NQC, with clear performance obligations and incentives for RA suppliers whose tags are used to meet RA requirements. Commercial arrangements between parties will be made with knowledge of the CAISO tariff requirements. There is no need or role for the ISO to develop the transaction confirm: third parties will do that just as they have in the past. Ultimately, a centralized forward capacity market with annual reconfiguration auctions will provide an important vehicle for efficiently buying and selling SCP tags at transparent, market-driven prices.

7. Is an electronic RA Registry essential to the SCP effort, particularly if it may impact the ability to make a FERC filing in early 2009? Could the RA Registry be developed in a later phase?

While it is possible to develop and issue SCP tags without a formal RA Registry, such a Registry would nevertheless prove extremely valuable to market participants, the CAISO, and possibly the CPUC. Ultimately, the CAISO needs a mechanism of issuing and tracking final ownership of SCP tags, and this should be the primary function of the Registry.²

- a. What systems or infrastructure are needed or desirable to (1) facilitate trading (2) track ownership (3) enable registration of SCP tags? How can we meet such needs by a relatively simple interim approach for the near term, to be developed later into an end-state approach?

See 7b

- b. Is there a reason why an RA Registry is essential to prevent double-counting of RA capacity? The CAISO and CPUC have been validating RA capacity for several years now to ensure that no double counting occurs. Is the current system sufficient?

The existing process requires manual reconciliation of Resource Plans (submitted by LSE's) and Supply Plans (submitted by RA capacity suppliers). If necessary, this process could continue; ideally, however, LSE Resource Plans should be tied to the NQC list of physical RA capacity (to protect against double-counting) without the duplicative submittal of Supply Plans. Development of such an approach, however, can and should follow development of the SCP itself.

² For example, something similar to the Secondary Registration System currently used for FTRs, or possibly even the existing system with minor modifications, would be sufficient.

8. What is required of the RA capacity or supplier prior to the delivery period? For example, should the CAISO assume continued use of current procedures such as submission of supply plans, or should alternatives or enhancements be considered within the scope of the SCP? If an RA Registry is created, does it need to include a level of sophistication that would allow the elimination of year-ahead and month-ahead showings and supply plans? Is this aspect of the RA Registry essential? There also is the reality that the CAISO requires supply plans from its SCs because it is the SCs with whom it has a contractual relationship; not the LSEs. RA resource data is currently validated through the supply plans and it is the supply plan information on RA capacity that is entered into and used in the CAISO operating systems. Also, will the CPUC be interested in departing from the current RA convention of year-ahead and month-ahead showings submitted directly to it by its jurisdictional entities? In essence, is it realistic to expect that an electronic mechanism can replace the current system of showings (both RA showings and supply plans)?

The complexities of this issue illustrate why it is appropriate to defer the potential development of an electronic RA Registry and to focus solely on the development of the SCP at this time. Ultimately, the results of a centralized market should replace the current “showing” process, and in the interim a Registry could take on a similar role. However, redefining the process for assuring LSE compliance with RA rules is beyond the strict scope of the SCP initiative. A multi-year forward commitment process will ultimately provide the CPUC with much more assurance of resource adequacy than is now available through the existing year-ahead and month-ahead showings. However, the CAISO should continue the existing procedures until the CPUC has ruled on the structure of the RA market in the Phase 2 Track 2 proceeding (CPUC R.05-12-013).

Performance Standards for RA Capacity

9. Do all stakeholders agree that all obligations for performance should be on the supplier? Are there certain circumstances where the LSE should be required to take some action, particularly if there is a long lead time in which to act?

The performance obligations should fall solely on the supplier, and not the LSE; see answer 2 for details. The issue of achieving resource adequacy is a distinct question from the definition of the SCP and implementation of the associated performance standards and incentives/penalties in the CAISO Tariff. In the CFCM design, forward commitment and transparent centralized clearing allow for the replacement of resources through reconfiguration auctions, with the cost responsibility assigned to the non-performing supplier, not LSEs.

10. What challenges are posed by use-limited resources and demand response resources? What metrics will allow fair and reasonable treatment of these and all other types of resources?

In order to count towards reliability requirements, use limited resources must make themselves available subject to obligations per the MRTU tariff. The CAISO has a mechanism of determining the NQC of such resources.

Demand response resources, e.g. end-use customers able to reduce consumption from the grid or provide ancillary services on instruction from the CAISO, may qualify as RA capacity resources and receive SCP tags. Several working groups are already studying issues related to demand response resources, and these working groups should resolve eligibility issues to ensure that a MW of demand-response NQC contributes an equivalent level of reliability as that of a similarly situated MW of active generation NQC.

DR qualification rules to determine their NQC (and, hence the quantity of SCP tags) will necessarily be different than rules for generation resources but should be equivalent from a reliability perspective. The complexities associated with DR qualification as capacity resources have been addressed in the centralized capacity markets conducted by ISO New England and by PJM. Those two markets address the issue slightly differently. In the CFCM design, DR is provided the opportunity to bid into the CFCM at any point in either the Initial or Reconfiguration Auctions or to contract with load for self-supply in either the Initial or Reconfiguration Auctions. There is, however, a need to administratively determine a performance or compliance rate for DR via verifiable measurement against established baselines, but such a process is beyond the appropriate scope of defining a SCP. Moreover, even if different DR programs face different qualification and performance requirements, the resulting SCP tags from all programs must be fungible, and for RA showing purposes, identical to SCP tags from generation.

11. How shall an outage be defined for purposes of calculating availability metrics? What is an acceptable forced outage rate? Should it vary by technology type?

As part of the Track 1 proceeding, parties have proposed that RA resource performance requirements be incorporated in the CAISO tariff. CFCMA agrees with this view, although believes such a change is not sufficient to ensure resource adequacy. CFCMA endorses standards that provide RA resources with achievable and strong incentives to maintain high availability, particularly in periods of peak demand. The standards must also provide sufficient clarity and surety to support appropriate investment to improve RA resource reliability while avoiding punitive penalties that merely add cost to the market.

RA resources would be considered available in the following circumstances:

- The resource was competitively offered in the day-ahead and real-time markets but not committed by the CAISO.
- The resource is committed and scheduled by the Scheduling Coordinator or CAISO.
- Use-limited resources that are not offered to the full capacity but are offered or scheduled consistent with CAISO tariff provisions.
- The resource was not available for reasons outside of its control (for example, transmission line outages). Intermittent generation unavailable owing to lack of 'fuel' (be it wind, sunlight, water, etc.) are, likewise, deemed available, so long as this intermittency has been factored into the resource's NQC.

- Import capacity that has been properly offered or scheduled in the Day-Ahead energy market but cannot make Real-Time deliveries because the relevant transmission is fully loaded in Real Time.
- A resource is off-line because of scheduled maintenance approved by the CAISO.

While different classifications of resources may face different NQC and performance rules (e.g. wind, use-limited, DR, QFs and conventional thermal generation will be treated appropriately) the availability standard (i.e., the must-offer metric) should *not* vary by technology type.

12. Should availability factors be broken out and standards developed for specific classes of resources to reflect their unique operating characteristics, i.e., combustion turbine, hydroelectric, demand response, wind, solar?

Systematic availability differences among generation technologies should be reflected in the determination of NQC.

13. What are the criteria which would trigger procurement of replacement capacity to replace RA capacity that does not or cannot perform sufficiently, as opposed to relying on the margin built into Planning Reserve Margin-based (PRM) RA requirements?

CFCMA does not believe that this question is relevant to the definition of a Standard Capacity Product, but instead goes to the question of RA procurement.

- a. Should the “forced is forced” principle be continued as is, or is some modification needed in conjunction with the SCP proposal?

The premise of the SCP development is to establish a single, common performance standard for capacity resources. We understand that the non-performance capacity de-rates associated with planned outages for system RA resources are subject to CPUC counting rules and should not be altered until such time as the CPUC reconsiders the monthly peak basis for the RA requirement.³

- b. How should costs of replacement capacity be allocated?

CFCMA does not believe that this question is relevant to the definition of a Standard Capacity Product, but instead goes to the question of RA procurement.

14. When, if ever, should insufficient performance by RA capacity have an impact on the LSE that submitted the capacity to meet its RA requirements? For example, in the context of the current monthly RA model, suppose an RA resource is suddenly forced out and will be out for three months of its contracted delivery period. Should the LSE that

³ Under the CPUC’s current RA rules, the LSEs’ system RAR is based on monthly peak load (i.e. 15% above the monthly peak). Since this resulted in a shortage of capacity in the off peak months when generators take their units offline for maintenance, the CPUC decided to de-rate capacity for planned maintenance. However, since the local RAR is based on an annual peak, planned maintenance de-rates were not required. Capacity market advocates in the CPUC’s capacity market proceeding have proposed moving to an annual peak RAR. The February CPUC Staff report asked for comment on a seasonal peak metric. It appears that the monthly peak metric requiring de-rates for planned maintenance is likely to change in the forthcoming CPUC ruling.

submitted that resource be required to obtain replacement capacity by the next monthly showing?

See answer 2 and 9.

Penalties & Other Corrective Actions

15. What are the different functions and incentive effects of financial penalties vs. adjustments to NQC?

CFCMA endorses an availability metric similar to that developed by PJM for use in its capacity market, the Reliability Pricing Model (“RPM”, see PJM Manual 18). Under this construct, units are penalized/rewarded based on their performance within the delivery month, and except in instances of chronic underperformance, NQC for year T+1 is not impacted by actual performance in year T+0.

The approach combines the Equivalent Demand Forced Outage Rate (“EFORd”) metric with a more focused Peak-Period Equivalent Forced Outage Rate (“EFORp”) metric:

- EFORd provides an all-hours available metric that provides incentives for resources to be available consistently. Resources that are less reliable are paid less, giving resource owners a direct market signal to invest in reliability improvements. In the eastern RTOs, there was a marked increase in generator unit availability when the capacity markets shifted from paying for installed capacity to available capacity (as measured by EFORd).
- The EFORp metric augments the EFORd metric by providing an additional incentive to maximize availability during peak hours. EFORp is a measure of availability during a pre-defined set of hours during the year during which the system has historically experienced high levels of demand and/or tight reserve margins. The stakeholder process should determine the appropriate hours for this metric and its applicability to various resource classes. By adding extra value to performance during the hours when the California system is most likely to be capacity-constrained, the EFORp metric provides appropriate incentives to make investments and undertake programs to improve peak-period availability.

Units that are generating are available, as are units that were offered but not committed. Units that were not available for reasons outside of management control (for example, transmission line outages) are not penalized.

Unlike the PJM RPM design, however, CFCMA believes that the entire penalty for under-performance should be assessed solely during the year, on a month-by-month basis, in which the resource under-performed. In particular, the qualified quantity of a resource is not adjusted from year to year based on prior years’ performance.

The EFORp metric measures availability during a pre-defined, small number of hours that historically have been the times of greatest system stress. The Target EFORp is set based on actual fleet performance in the prior calendar year. Using that standard, some resources will have higher-than-standard peak-available capacity and would receive credits for these extra megawatts of capacity, while others will likely perform below the assumed level of performance and pay charges for the below-standard delivery. CFCMA

proposes that the availability charges and credits from the performance metric be entirely self-funding. Charges from under-performing suppliers would fund the credits paid to suppliers whose resources performed, on aggregate, above average. There are two cases that could arise:

- If the total megawatts of under-performance is less than or equal to the megawatts of over-performance, the over-performing megawatts are paid a pro rata share of the under-performance penalties. Consequently each credit will be worth less than (or, at most, equal to) the capacity clearing price.
- If the total megawatts of under-performance exceed the megawatts of over-performance, over-performing resources are paid the capacity clearing price for their incremental megawatts. The remaining charges are returned to load on a load-ratio-share basis.

In hours not covered by the EFORp metric, the GADS-based or equivalent EFORd metric will apply. The annual EFORd statistic usually weights performance in all months equally. CFCMA proposes to use month-specific weights, reflecting (a) the exclusion of the EFORp hours in some months and (b) the relative importance of resource availability across months with historically high levels of load.

The CFCMA proposal filed in the RA Phase 2 Track 2 docket (CPUC R.05-12-013) provides full details of how these two metrics would work together and how the performance incentive or penalty would be calculated.

CFCMA believes this package of *financial* incentives and penalties is superior to reducing NQC in subsequent periods for several reasons. First, the timing is aligned: poor physical performance in one period results in poor financial performance in that period. This immediacy improves the effectiveness of the incentive. Second, changing the *quantity* of capacity attributed to a resource raises a host of complex issues that are difficult to resolve.

Financial incentives and penalties, assessed contemporaneously with delivered performance, appear to CFCMA as workable under a broad range of RA markets, including both the current structure as well as a multi-year forward centralized capacity market. It is important that the amount of penalties and the conditions under which non-performance may be incurred be very clearly delineated so that a supplier can assess the risk of non-performance when pricing their capacity and when choosing levels of maintenance and investment to support unit reliability.

16. To what degree and under what circumstances should the adjustment of NQC of a resource occur?

CFCMA supports an approach that would generally leave the NQC of a resource unchanged from year to year, subject to incentives and penalties based on performance in the delivery year.

However, if a unit chronically and seriously underperforms, the resource's NQC available for subsequent annual showings should be reduced until the resource has reestablished a higher availability benchmark. The details of this element of the proposal should be developed in a stakeholder process. Likewise, a resource that fails to test at (or

within a band around) the level underlying the NQC calculation would have its NQC reduced for subsequent annual showings.

17. How might seasonal penalty rates be applied to ensure a very high incentive for resources to perform in high demand periods?

The CFCMA availability proposal implicitly includes seasonal incentive rates. The EFORd metric serves as a background incentive rate, so that there is some value placed on performance in every hour. The EFORp metric adds an additional incentive rate for performance in defined peak periods. This peak-period availability metric reinforces the signal for high availability created by high energy prices associated with high-load hours. Seasonal weighting can be achieved through the hours selected for the EFORp metric, providing completely self-funded incentives for high availability during critical periods.

Credit Requirements

18. What credit requirements should apply to RA suppliers vs. Scheduling Coordinators for RA capacity?

Credit obligations under the existing CAISO Tariff fall to Scheduling Coordinators, and each Scheduling Coordinator is responsible for assuring that the entities for which it schedules have sufficient credit. This structure should continue to be used with a SCP where a consideration of possible penalties for non-performance of SCP sellers would be included in the credit calculation. All current rules of netting receivables against payables should continue in force.

19. What is correct method for calculating the optimal credit requirement?

The credit requirement should reasonably balance the cost of credit imposed on suppliers through their Scheduling Coordinators, and the risk of non-performance by suppliers. Because, in our view, the SCP should carry financial penalties for non-performance by suppliers, the credit requirement under the current market design will need to include an amount to cover the risk of incurring these penalties. Under a centralized capacity market, however, the financial penalties would be netted from capacity payments and, therefore, would not impose an increased credit requirement on the market⁴.

20. Should the credit requirement required for the SCP stand alone or should the liability associated with this product be netted against the overall Accounts Receivable/Accounts Payable (AR/AP) of the SC associated with the RA supplier?

The Scheduling Coordinator should be allowed to administer the credit requirement associated with RA suppliers for which that Scheduling Coordinator provides services. As a general matter, however, we believe that the credit requirements associated with SCPs should be netted against the overall credit position of the RA supplier to minimize the cost to the market associated with supplying RA capacity (a cost that will be passed on through higher rates).

⁴ Exceptions apply for new resources that are under construction.

Implementation Details

21. Given that an early 2009 tariff filing with FERC is the working target to enable parties to begin RA capacity negotiations based on the SCP as early as possible, what elements of the SCP must be in place to meet both the commercial and the reliability objectives of the SCP by the desired target?
- a. Which elements are crucial for the initial filing?
 - 1) Defined obligations of RA resources
 - 2) A performance (i.e. availability) standard on RA resources
 - 3) Compliance incentives and penalties for performance of RA resources
 - 4) Defined process for setting NQC relative to SPC tags
 - b. What additional elements can be resolved in time for an early 2009 FERC filing?
 - 1) Specific annual testing requirements and timelines for adjusting NQC if different than what already exists.
 - 2) Treatment of grandfathered contracts and other transition items
 - c. Which elements can wait for a subsequent FERC filing?
All other elements, including credit requirements, should be deferred until the CPUC has ruled in its Phase 2 Track 2 RA proceeding (CPUC R.05-12-013).
 - d. Should this be a staged or phased implementation with planned enhancements in future filings?

See answer to 21.c above. The development of an RA Registry should be undertaken promptly but on a parallel track; it is not clear, though, whether this registry will require a FERC filing.
22. Assuming the SCP proposal is filed and approved by FERC in spring 2009, should the SCP take effect immediately for use in the monthly RA showings for the remainder of 2009, or only come into play for RA capacity procured for delivery in 2010?

Only for RA capacity for delivery in 2010. RA commitments for 2009 will be in place, and it may be unreasonable to impose new obligations or penalties on capacity during the delivery year for which it was contracted.
23. The CAISO understands that the end-state vision for the SCP is that it will apply to 100% of the capacity procured to meet RA requirements. Can the SCP definition be applied to 100% of RA Capacity from the start? Is there a need for a transition period to a full implementation of SCP (i.e., short-term “grandfathering” of some existing RA capacity)?
- a. If a transition period is needed what is the rationale for it and how should it be defined?

To better understand the potential magnitude of this issue, we suggest that the CAISO first survey stakeholders to obtain estimates of the amount of existing contracts that would likely be impacted by the SCP for delivery year 2010.

While CFCMA believes some grandfathering will likely be necessary, commercially reasonable steps should be taken to minimize the degree of grandfathering.

- b. What criteria should be used to define categories of RA resources eligible for grandfathering during the transition period? What shares of RA capacity do these categories represent, and what are the practical implications – e.g., any relaxation of performance obligations, reduction in tradability, impacts on existing supply contracts – of allowing them to be grandfathered?

See answer to 23(a).

- 24. What change management provisions need to be incorporated into the SCP proposal? Besides specifying the provisions for a transition period, if one is determined to be needed, what other change management scenarios must be considered?

CFCMA has no position on this question.

- 25. Assignment of SCP tags to eligible RA Capacity
 - a. Should the SCP simply take the existing counting rules and NQC determination process as given, or are there issues with these existing features of the RA process that need to be addressed in conjunction with the SCP? For example, if different flavors of the SCP have different performance requirements, how can we ensure that simply adding up the pre-determined quantity of SCP tags will result in achieving the desired level of overall system reliability?

The CAISO should take the existing counting rules and NQC determination methodology as given, recognizing that the planning reserve margin is also in place to provide additional insurance for forced outages. The CAISO's narrow focus should be to establish a performance standard for qualifying capacity and the penalties for non-performance. While an SCP tag may carry with it a locational designation for the purposes of meeting local area reliability requirements, such a designation should have no effect on the testing and performance standard or other terms of the SCP in the CAISO tariff.

The CAISO needs to appreciate that this performance standard is just one of several insurance mechanisms built into the RA program. The counting rules, resource testing, and the planning resource margin work together to meet the reliability standard. The counting rules should be the first step in assessing a resource's ability to be available at peak. The next step is to apply the performance standard to the capacity resources that are allowed to count. The purpose of the performance criteria is to assess whether that obligation is being met. Finally, each RA resource must be made available to the CAISO pursuant to its tariff obligations.

- b. Are there other factors besides the counting rules, testing of maximum operating capacity, deliverability assessment, and performance criteria that should figure in the calculation of a resource's MW tag quantity? If so please describe.

CFCMA does not believe that performance should, as a general matter, affect a resource's MW tag quantity. See answer 15 above. We do not believe that there are factors besides the counting rules, testing results, and deliverability assessment that should set the tag quantity for a resource, where we understand "counting rules" to include the potential to de-rate the NQC of a resource to reflect the fact that it is intermittent, use-limited, or is otherwise intrinsically less able to support reliability than its tested maximum operable capacity would imply.

- c. Can we equate the quantity of tags for a resource to its NQC, or is there a need to maintain a distinction between these two terms?

CFCMA believes that the quantity of tags for a resource should equal its NQC.

- d. What is the duration of a tag? Are tags issued anew each year with a one-year term? Or are tags permanent once they are acquired by a resource? If the latter, must a resource that retires or has its NQC reduced in a subsequent year buy back all or some of its outstanding tags? Can NQC be reduced within a given delivery year based on supplier performance?

NQC may be adjusted periodically based on the counting rules developed in the CPUC's planning reserve margin proceeding, but not more frequently than annually. The NQC may also be adjusted annually based on the unit testing. The tags should therefore be annual. NQC cannot and should not change within the compliance year as this would be an unmanageable commercial risk. It is also unnecessary given the annual methodology by which the planning reserve margin is determined.

- e. How are tags assigned to new capacity investment prior to construction or commercial operation?

To qualify as RA capacity and be eligible to receive SCP tags for a future Delivery Year, a planned resource must demonstrate to the CAISO's satisfaction (subject to criteria to be further developed) that the project will be completed and able to deliver energy prior to the beginning of the Delivery Year, or if the resource is selling month-by-month, the unit is capable of meeting the Delivery Month. If the resource is to be considered as qualified to meet a Local Area Requirement, it must be located within and deliverable to the Local Area.⁵ The resource must provide a project development plan with key milestones, determined by CAISO to be realistically achievable.

Planned resources include not only new facilities, but also resources that could, with a sufficiently large investment, be markedly expanded, improved, or have their economic lifetime significantly extended. The stakeholder process should determine the particular qualification criteria by which substantial investment in an existing generation resource qualifies the facility to be offered as a planned generation resource, although the CFCMA proposes to use the criteria developed by SCE in its RFOs for new generation resources as a starting point.

Except for intermittent, use-limited and demand resources, the quantity of SCP tags that a planned resource could be awarded would be set by the nameplate capacity of the resource. If the resource is subject to derating through a counting rule (including rules regarding intermittent and use-limited resources), that derating factor would be applied. Further, deliverability testing by CAISO should be conducted prior to establishing NQC and SCP tags. Since, under CFCMA's proposal, performance is measured *and non-availability penalized* within the Delivery Year, there is no need to develop an arbitrary

⁵ Based on technical analysis, the CAISO may determine that any planned or existing resource is partially deliverable to a Local Area. In this case, that fraction of the resource will be deemed as helping to fulfill the Local Area Requirement, with the remaining MWs deemed as general system resources (or potentially some other Local Area if, for example, Local Areas are nested).

estimate of the resource's expected availability to de-rate the number of "unforced" SCP tags.

Other Comments:

CFCMA encourages CAISO to focus narrowly on the task at hand: developing the SCP definition and obligations, including performance requirements and incentives that will apply to all sellers and buyers of RA, irrespective of the LRA.

While completing this task should be a high priority for CAISO and all stakeholders, it is more important to get the Tariff language *right* than to get it *fast*. There are many complex issues, including performance measurements, obligations and penalties, as well as the potential for other issues, such as the calculation of "N" in "NQC", that must be carefully addressed before the CAISO should implement an SCP. CFCMA is concerned that the stakeholder process is very compressed and may not allow sufficient time for thoughtful deliberation and consideration of the full ramifications of various proposals and counterproposals that will emerge during this proceeding. Although we are not proposing that CAISO extend the timelines at this point, we urge CAISO staff to be open to such changes if it becomes apparent that more work is needed than can be accomplished, even with all good faith efforts, in the allotted time. It is very important, in our view, that this filing go to FERC with widespread stakeholder approval, especially from the CPUC and other LRAs, and we believe achieving functional and equitable rules is worth potential delay inside the CAISO.

GADs Data

Section 40.4.5 of the CAISO tariff - Reduction for Performance criteria - refers to the submission of GADs data for purposes of assessing the performance of capacity resources. However, currently the submission of confidential GADS data is voluntary for capacity resources⁶. As part of this effort, the CAISO needs to determine the most appropriate method of assessing performance. We note that, as part of normal daily operations, the CAISO has detailed minute-by-minute output data, as well as outage and derate information, for the vast majority of MWs within its control area. We also note that not all generation currently compiles or submits GADs data (i.e. many QFs). Any performance measurements should work within the limits of the data the CAISO currently has access to and that generators already compile and report. To the extent the CAISO determines that GADs data is the appropriate source of information for certain classes of generation, this reporting should be a mandatory standard in order for this generation to provide SCP.

⁶ As part of the CAISO and CPUC Planning Reserve Margin study, the CAISO has asked generators to voluntarily sign a Gads data confidentiality waiver.