

# Stakeholder Comments Template

## Subject: Standard Capacity Product

### Comments due COB Thursday 9/11/08

Submitted by	Company	Date Submitted
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The CAISO is requesting written comments on the *Standard Capacity Product Issue Paper* that was discussed at the September 3<sup>rd</sup> Conference Call. This template is offered as a guide for entities to submit comments; however participants are welcome to submit comments in any format. There is a section at the end of the document to comment on topics that may not be covered in this questionnaire.

All documents related to the Standard Capacity Product Initiative are posted on the CAISO Website at the following link:

<http://caiso.com/2030/2030a6e025550.html>

Upon completion of this template please submit (in MS Word) to [scpm@caiso.com](mailto:scpm@caiso.com). Submissions are requested by close of business on Thursday, September 11, 2008.

Please submit your comments to the following questions in the spaces indicated. If you are offering proposals or recommendations, please provide the business justification or other rationale for your proposals, including illustrative examples wherever possible.

#### **SCP Overview**

1. 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?

*CMTA/CLECA agree with the characterization in slide 8.*

*At the outset, we wish to commend the CAISO for commencing this important stakeholder process. It is our initial impression, however, that the Standard Capacity Product Initiative described in the whitepaper, while thoughtful, is overly complex and includes tasks outside the scope of issues that need to be resolved in order to meet the February 2009 schedule for filing tariff amendments at FERC. It is the appropriate role of the California Public Utilities Commission or Local Regulatory Authority to establish the Resource Adequacy (RA) and the Planning Reserve Margin requirements, including NQC and counting rules. It is both unwise and unnecessary to open up the CPUC's fundamental RA rules for discussion as part of this stakeholder process.*

*It is the appropriate role of the CAISO to identify and adopt the performance (Must Offer) obligations that will bind generators participating as RA resources, as well as specifying penalties for failure to comply. That should be the narrow focus of the first phase of the development of the SCP. Incremental improvements, such as development of an electronic bulletin board and/or Registry, can be deferred to a later phase.*

*CMTA/CLECA do not offer opinions on all the questions posed in the following sections. As organizations of large customers, we are willing to defer to the expertise of suppliers and LSEs that will make use of the SCP as to recommendations on specific technical implementation details. However, we do have a keen interest in the development of the SCP, which is "the missing piece" in today's RA framework, and respond accordingly.*

### **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?

*Each party can only be held responsible for those actions within its own control. The LSE has the obligation to procure the required number of SCP tags, the generator has the obligation to provide capacity and energy to the CAISO, and the customer has the obligation to pay for it all. Therefore, the LSE's responsibility ends with its submission of the SCP tags.*

### **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?

*CMTA/CLECA believe that changes to the existing RA-MOO or whether ancillary services should be provided by RA capacity are matters outside the scope of the Phase 1 SCP task. While there may be changes to the RA-MOO that would be beneficial, change*

*is not integral to the February 2009 FERC filing, and, indeed, would render such a filing more controversial.*

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 question about “flavors” seems to assume that the product is something different than what the CPUC has approved. Under the current framework, the products are “system” and “local” capacity. The only “flavors” currently allowed are restrictions on how much a resource can count as part of the RA showing. This is included in the RA showing as Category 1, 2, 3 and 4. We do not see the need for any additional categories at this time, and indeed, excessive product differentiation will lead to reduced liquidity. Such an outcome undermines the value of the SCP.*

### **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?

*We are definitely proponents of a bulletin board. However, we would strongly encourage the CAISO to postpone any further discussions on this topic until after the work on the SCP filing is completed.*

- b. Is this element essential to getting the SCP up and running? Could the SCP function without it? Can this element be deferred until a later time? Could it be developed by a third party?

*We believe that the bulletin board will add considerable value by adding transparency and reducing transaction costs for parties, but it is not essential for the initial SCP.*

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

*Transferring tags is part of a commercial transaction, and not an RA function. The tariff needs to specify the performance obligations and potential penalties, not the commercial aspects of the trade.*

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?

*An electronic RA Registry is not essential to the SCP effort. To the extent that stakeholders believe such a registry has value, discussion should be deferred to a later phase.*

- 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?

*The existing RA showing should be adequate to facilitate trading and track ownership of SCP tags.*

- 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 current system appears to adequately protect against double counting.*

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)?

*There is no demonstrated need to change the current LSE RA compliance showing and the generator supply plans.*

### **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?

*CMTA/CLECA agree that the obligations for performance should be on the supplier.*

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?

*The CPUC's RA rules already are intended to account for use-limited resources by restricting how much can be included in the RA showing. There are also explicit provisions for treatment of demand response. To the extent that better information is*

*available to refine the metrics for these types of resources, the CPUC should consider this as part of the RA Rulemaking, R. 08-01-025.*

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?

*Here again, to the extent that the CAISO or other stakeholders believe that changes are needed to the current RA criteria, that review should occur within the CPUC's RA Rulemaking.*

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?

*No comment.*

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?

*No comment.*

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

*CMTA/CLECA believe that the "forced is forced" principle is a fundamental component of the current RA framework. No further discussion on this topic is appropriate, except within the confines of the CPUC's RA Rulemaking.*

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

*The costs of replacement capacity should be allocated to the supplier that sold the SCP tag and failed to perform.*

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

*Under the current rules, the supplier bears the responsibility for performance.*

### **Penalties & Other Corrective Actions**

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

*Financial penalties should be applied, except in extraordinary circumstances. The CPUC's current RA rules address penalties.*

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

*The existing rules address this subject.*

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

*No comment.*

### **Credit Requirements**

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

*No comment.*

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

*No comment.*

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?

*No comment.*

### **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?
- Which elements are crucial for the initial filing?
  - What additional elements can be resolved in time for an early 2009 FERC filing?
  - Which elements can wait for a subsequent FERC filing?
  - Should this be a staged or phased implementation with planned enhancements in future filings?

*CMTA/CLECA believe that the simplest approach is the best. The CAISO tariff filing should address the performance obligations and compliance penalties that are conditions of the SCP tag. Any changes to the current RA framework should be taken up by the CPUC as part of its RA obligation. There are no critical changes identified as necessary to the successful implementation of the SCP. After the first phase is complete, the CAISO can then initiate a second phase to examine issues relating to the Electronic Bulletin Board and Electronic Registry.*

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?

*LSEs (and their customers) and generators will all benefit by allowing the SCP to take effect immediately upon FERC approval.*

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?

*There may be a need to allow grandfathering for DWR contracts until their expiration. Other than that, we do not see a need for a transition period.*

- 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 above.*

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?

*No comment.*

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?

*To reiterate, the current counting rules and NQC determinations should apply.*

- 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.

*No comment.*

- 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?

*The quantity of tag should be the same as 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?

*Since the current RA rules apply on an annual basis, the tag should be on an annual basis, but available to trade on a monthly or seasonal basis. NQC should not be reduced within a given delivery year. Financial penalties should apply in the case of performance problems.*

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

*The CPUC's RA rules already address this.*

**Other Comments:**

*None.*