

# Stakeholder Comments Template

## Subject: Standard Capacity Product

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

Submitted by	Company	Date Submitted
<i>Tony Braun, Braun Blaising McLaughlin, P.C.</i>	<i>California Municipal Utilities Association</i>	<i>September 11, 2008</i>

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?

*As an initial matter, CMUA’s views set forth here are preliminary and subject to reconsideration as discussion on this issue evolves. CMUA was not an active participant in CPUC discussions because the CPUC does not have jurisdiction over CMUA members*

*for these purposes. We look forward to listening to issues debated so as to inform our positions on this complex matter.*

*CMUA would like to clarify its view of SCP. We view SCP as a positive policy direction if used appropriately and in a manner that augments existing programs and does not attempt to set Resource Adequacy (or “RA”) policy. SCP should not become the sole way to comply with Resource Adequacy requirements promulgated by LRAs. CMUA’s position therefore may diverge from the CAISO’s initial thoughts in the Issue Paper. Some of the benefits of making SCP a tool rather than a program are to avoid or minimize many of the thorny issues raised in the Issue Paper regarding treatment of certain types of resources and SCP flavors, to properly reflect the relevant jurisdictions of LRAs and the CAISO, and to make this policy augmentation manageable. This approach is further supported by the lack of a clear showing that RA policy is failing in a fundamental manner. Indeed, the evidence clearly shows that current policy is a success.*

*In this regard, CMUA supports a minimalist approach to the first attempt to create a SCP. Non-essential elements of the SCP should be left to future market refinements. We assume that the CAISO is not intending to expand its existing MRTU Tariff authority with respect to its Resource Adequacy capacity requirements, including but not limited to counting conventions and deliverability requirements.*

*It is also not clear from the reference to Centralized Capacity Markets (CCM) that the CAISO envisions this as an element of the SCP proposal. The CAISO should clarify that CCMs and the SCP are not linked. Also, it is not clear that the first stage of the SCP will require CAISO registration and performance tracking of RA capacity. CMUA does not think the first stage of SCP should require registration and performance tracking. The CAISO should focus its effort in defining the minimal elements of SCP to facilitate the RA capacity trading and compliance by the LSEs for the applicable RA requirements, and incrementally add other features to the SCP over time after further discussion and vetting with the stakeholders.*

### **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?

*CMUA generally agrees that the LSE responsibility should end with the submission of SCP tags to meet its RA requirements. CMUA would like to learn more from stakeholders and the CAISO as to the perceived problem of supplier non-performance. We are not aware that this has been a problem. CMUA is also concerned that SCP not lead down a policy road whereby the consequences of supplier non-performance fall on the CAISO to remedy.*

### **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?

*CMUA supports moving forward under the existing RA-MOO model as in initial step. This model is well understood by market participants and it will enable all bilateral contract parties to fully understand their performance obligations under the SCP. Thus, we do not believe that the existing paradigm needs to be changed in the initial implementation of SCP. CMUA recognizes the simultaneous optimization of energy and AS under MRTU presents a market design change, but development of an SCP should not determine the RA-MOO requirements under MRTU. CMUA would be particularly concerned if existing RA contracts and agreements were undermined by a change in the obligations of RA capacity.*

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?

*This is an issue which becomes simpler if SCP is treated as a tool rather than a program. Counting conventions are properly the role of LRAs. The counting conventions reflect significant policy debate that should not be revisited in the context of the SCP. The wisdom of this approach is confirmed when assessing the variety of resource types in California, the nature of existing arrangements, and operational rules (for example, Load Following MSSs). These issues can be left to RA design and not implicated in SCP roll out.*

### **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?

*CMUA does not believe a bulletin board is necessary.*

- 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?

*See 5.a., above. SCP could function without a bulletin board. If a bulletin board has value to the market, a third party can take the lead and risk on this issue.*

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

*A confirmation letter may be desirable. Certain limited standardized language on performance obligations may be a functional substitute. However, neither is critical for the initial filing. What is critical is that the key elements of the SCP be agreed to and defined, so that parties can refer to that SCP definition in their RA transaction agreements.*

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 RA Registry is not essential and can be deferred.*

- 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?

*CMUA does not see any additional functionality or infrastructure necessary to start implementing the SCP.*

- 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?

*Again, the current approach appears to be working and no new systems are required.*

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)?

*Many of these questions appear to restate earlier inquiries or are not directly relevant to CMUA members. Again, simple is better and many of the suggested functionalities are not essential to SCP start-up.*

### **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?

*Yes, the obligations for performance should generally 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?

*Please see above. CMUA supports the current counting conventions for use-limited resources and demand response for initial SCP roll-out. Again, many tools can be used to allow compliance with RA requirements promulgated by the LRAs. Demand Response and Use-limited resources are handled in those rules. SCP is not a mechanism to expand CAISO authority in this area.*

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?

*Please See 10, above.*

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?

*Please See 10, above.*

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?

*There is already a mechanism to deal with this in the CAISO Tariff.*

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

*The existing principle appears satisfactory.*

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

*It appears existing cost allocation methodologies in the Tariff should suffice.*

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?

*This should be handled in the NQC. Long outages will be reflected in the NQC in the future. Reserves are for this purpose, consistent with reliability criteria. Generators will have sufficient incentives to maintain acceptable performance or risk future adjustments in NQC (and the resultant loss of RA revenues), and also with the fact that they may be missing ancillary services or energy revenue when they are not performing.*

**Penalties & Other Corrective Actions**

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

*CMUA does not support penalties. RA rules are already in place as promulgated by the LRA. CMUA is unaware that there have been significant issues that require response by instituting a penalty regime.*

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

*CMUA believes the existing rules for NQC adjustment are satisfactory.*

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

*Again, CMUA does not support penalties.*

**Credit Requirements**

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

*CMUA understands that the credit requirements will be required only if a financial penalty regime is implemented. Since we do not believe such financial penalty regime is an essential element of the initial implementation of SCP, we believe the credit requirement discussions can be deferred to a later phase.*

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

*Please See 18, above.*

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?

*Please See 18, above.*

**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?

*Please see answers to the above questions.*

b. What additional elements can be resolved in time for an early 2009 FERC filing?

c. Which elements can wait for a subsequent FERC filing?

- d. Should this be a staged or phased implementation with planned enhancements in future filings?

*Implementation should be staged to the extent necessary. However, CMUA is advocating a minimalist SCP.*

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?

*CMUA supports 2010 to minimize disruption to bilateral markets.*

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?

*CMUA opposes the CAISO’s understanding of the “end state.” A “transition period” suggests that all resources will ultimately be able to fit into the SCP definition. This may not be the case. It is likely the multiple flavors and phased treatment of certain resources will be necessary. Self-provided RA capacity should not require an SCP agreement to be eligible for meeting an LRA’s RA requirements. This all supports adoption of a minimalist SCP.*

- 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. Further, CMUA generally supports grandfathering of all existing RA agreements, with prospective application of the SCP.*

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?

*If the CAISO is stating that rules for SCP should be outside the CAISO Tariff, CMUA would oppose that proposal.*

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?

*Existing rules appear to have enhanced reliable system operation, not degraded it. CMUA supports use of existing rules.*

- 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.*

- 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?

*See above.*

- 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?

*Response Here*

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

*Response Here*

**Other Comments:**

*The General Comments in response to Question No. 1 frame the specific comments above. CMUA looks forward to continued participation in this process.*