

Flexible Resource Adequacy Criteria and Must Offer Obligation Phase 2 Second Revised Draft Framework Proposal

**Comments by Department of Market Monitoring
May 22, 2018**

DMM appreciates the opportunity to provide comments on the Flexible Resource Adequacy and Must Offer Obligation (FRAC-MOO) Phase 2 Second Revised Draft Framework Proposal (framework).¹ DMM supports the ISO's continued efforts to improve flexible capacity procurement and the ISO's efforts to align the FRAC-MOO and day-ahead market enhancements initiatives.

Real-time must offer obligations

The proposed framework would eliminate real-time must offer obligations for RA contracted resources. The ISO proposes this because the ISO envisions that the imbalance reserve products proposed in the day-ahead market enhancements stakeholder process will determine which resources will receive real-time must-offer obligations.² Moving the determination of the real-time must offer obligation to the day-ahead market appears consistent with logic that the RA program provides sufficient resources for the day-ahead market and the day-ahead market then provides sufficient resources for the real-time markets. But the removal of the RA real-time must offer obligations should be contingent on the imbalance reserve products providing a suitable replacement for the real-time RA obligations.

The ISO has not defined how it will determine the imbalance reserve product requirements. Therefore, DMM cannot assess whether or not the imbalance reserve products could adequately replace real-time RA must-offer obligations. One issue of particular importance is the role that real-time RA must-offer obligations serve in mitigating system level market power in the real-time markets. In the day ahead market enhancements revised straw proposal, the ISO has not specified how it is going to set the imbalance reserve product requirements in a way that helps to mitigate the exercise of real-time system level market power. The ISO would need to define the imbalance reserves products requirements in much more detail before DMM could assess whether or not DMM supports the product as a suitable replacement for real-time RA must-offer obligations.

In addition, DMM notes that in other RTOs with capacity markets, must-offer obligations for resources being relied upon to meet capacity (including imports) continue into the

¹ *Flexible Resource Adequacy and Must Offer Obligation Phase 2 Second Revised Draft Framework Proposal*, CAISO, April 17, 2018:

<http://www.caiso.com/Documents/SecondRevisedFlexibleCapacityFrameworkProposal-FlexibleResourceAdequacyCriteriaMustOfferObligationPhase2.pdf>

² *Day Ahead Market Enhancements Revised Straw Proposal*, CAISO, April 11, 2018:

<http://www.caiso.com/Documents/RevisedStrawProposal-DayAheadMarketEnhancements.pdf>

real-time market. This reflects the fact that many of the contingencies that drive capacity requirements occur in real-time after the day-ahead market. Thus, DMM would be cautious about design changes that could decrease available resources in real-time on high load days. If anything, DMM recommends that the ISO consider changes to increase the reliability and availability of resource adequacy imports in real-time, rather than making changes that might reduce availability of resource adequacy capacity in real-time.

Flexible resource adequacy requirements

As explained in previous comments, the difference in the level of energy schedules between the day-ahead and real-time markets is not the same as the change in ramping needs between those markets.³ While it is reasonable to align the FRAC-MOO and day-ahead market enhancements policies so that flexible RA procures sufficient capacity to meet the day-ahead market needs, there does not appear to be a direct connection between the flexible RA needs and the imbalance reserves requirements. The flexible RA requirements need to ensure there is sufficient capacity bidding into the day-ahead market to meet flexible needs across multiple intervals or hours and not just from one market interval to the next. Currently there is not sufficient details on either the flexible RA or imbalance reserve product requirements to determine how the requirements will interact.

³ *DMM comments on FRAC-MOO2 Revised Draft Framework Proposal*, March 13, 2018:
<http://www.caiso.com/Documents/DMMComments-RevisedDraftFlexibleCapacityFrameworkProposal.pdf>