Dynegy Marketing and Trade, LLC Comments on 4th Revised FRACMOO Proposal

Jason Cox, Dynegy, 713-507-6413, Jason.cox@dynegy.com November 27, 2013

Dynegy appreciates the opportunity to provide comments on the CAISO's November 6, 2013 4th Revised Draft Flexible Resource Adequacy Criteria and Must-Offer Obligation proposal. Dynegy understands that the CAISO has proffered the following changes to the 3rd revised proposal:

- The ISO is proposing to determine change in load as part of the flexible capacity requirement allocation during the maximum 3-hour net-load ramp by using an LSE's average contribution to load change during top five daily maximum three-hour net-load ramps within a given month from the previous year x total change in ISO load.
- Included a more complete description of the ISO's proposed methodology to allow gas-fired use-limited resources to reflect use-limitations in their bid inputs to the market so that these resources can submit bids for all the hours required by the flexible capacity must-offer requirements.
- The ISO is proposing that demand response resources would be eligible to establish an effective flexible capacity through a test event that would occur during the demand response resource's selected window of 7:00am – 12:00pm or 3:00pm – 8:00pm.
- The ISO is proposing that energy storage resources would elect one of two options for providing flexible capacity and for determining their effective flexible capacity: Regulation Energy Management or fully flexible capacity. The effective flexible capacity for energy storage resources electing to use the ISO market's Regulation Energy Management functionality would be set at the lesser of the resources 15 minute output capability or the resource's NQC. Resources that select the regulation energy management option will be required to submit economic bids for regulation for the time period from 5:00 a.m. – 10:00 p.m. as a regulation energy management resource. Resources selecting the full flexible capacity option would be measured based on the resource's three hour capability up to the resource's NQC. Resources that select the full flexibility option will be required to submit economic bids for the full amount of effective flexible capacity from 5:00 a.m. to 10:00 p.m. Once an energy storage resource selects a particular bucket it may not switch for the duration of the RA year.
- The ISO has dropped the option for energy storage resources to select one of the demand response bidding windows.
- The ISO is proposing a revised price for the Standard Flexible Capacity product. The new price, $30.10/kw-yr is based on the average price of the flexible ramping constraint during the time intervals between 5:00 a.m. and 10:00 p.m. in which the constraint was binding over the past 18 months. The ISO proposes to freeze this price at this level until 1) are excessively low (the ISO requests stakeholder input as to what these levels would be, 2) a market based pricing mechanism for forward procurement of flexibility has been established or 3) three years, at which time the adder price will be reexamined.
- The ISO proposes that real-time economic bids be weighed 80 percent towards the SFCP calculation and day-ahead economic bids be weighed at 20 percent. This modification will increase the incentive to submit economic bids into the real-time market.
- The ISO proposes that use-limited resources that reach their use-limitation within a month will be required to provide substitute capacity or be subject to SFCP availability charges. Thresholds exempting use-limited resources from SFCP penalties have been removed.

Dynegy offers the following comments:

Dynegy supports the October 16, 2013 WPTF comments and wants to reemphasize preferences on the issues that are still under consideration:

- Counting rules for various classes of resources still need to be resolved in a manner that provides equity between the contribution, the obligation and the compensation.
- We support the "adder method" for counting flexible performance.
- We continue to encourage allocation based on LSE's coincident peak ramp. (WPTF does not support PG&E's proposal for allocation on non-coincident peak load.) The ISO's selected allocation regime should be consistent with the ISO's overall FRAC drivers.
- Further refinement is needed for combined heat and power resources to ensure that they are incented to offer their flexible range into the ISO and to provide clarity for parties' bilateral contracting processes.

Dynegy comments specific to the 4th Revised FRACMOO Proposal:

- Physical test to determine Demand Response EFC (Section 6)
  - Dynegy supports using a physical test to determine the EFC of DR & recommends that the CAISO consider a look back to see if the DR actually performed as dispatched when committed for ramping needs.
- Must-Offer Obligation for Use-Limited Resources (Section 7.1.2)
  - The CAISO, not the Resource Owner (or SC) is the entity best positioned to optimize the use of a Use-Limited Resource, with input from the Resource Owner (or SC), taking into account all contractual obligations.
  - The MOO is problematic as the peak need for flexibility is October - March vs. peak energy need in June – September timeframe.
    - There is a chance that the MOO could result in exhausting a Use-Limited Resource's operating hours meeting ramping needs and not be available for the peak energy need, setting the resource owner (or SC) up for a capacity penalty.

        - How would CAISO reconcile the MOO for a Use-Limited Resource that was contracted for RA for the peak energy period (June – September); would it have a MOO for any period outside the RA contract period? Would it be for only the remaining available hours, equally distributed across the remaining months or specifically targeted at the most valuable remaining months?

- Replacement Requirement for Exhausted Use-Limited Resources (Section 8.5.3)
    - Requiring Use-Limited Resources to be subject to a MOO then requiring them to replace the flexible capacity once exhausted is ridiculous and bad market policy in my view. Use-Limited Resources that exhaust their allowed operating parameters should be exempted from any penalty… or maybe the CAISO should share in the penalty since the optimization model messed up somewhere.
        - Potentially adding insult to injury, the Use-Limited Resource may be mitigated and forced to run until it exhausts its allowed operating hours (or emissions, starts, etc.) before the month is over, then be forced to replace the capacity or face a penalty! Let's just try to imagine the conversation with DMM on including those costs in the opportunity cost calculation.

Thank you for your consideration of our input on this proposal.