Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Fourth Revised Straw Proposal, Posted November 7, 2013

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the Flexible Resource Adequacy Criteria and Must-Offer Obligation fourth revised straw proposal on November 7, 2013, and issues discussed during the stakeholder meeting on November 13, 2013.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to fcp@caiso.com no later than the close of business on November 27, 2013.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. As detailed in the fourth revised straw proposal[1] and at the 11/13 stakeholder meeting PG&E has put forward an alternative allocation methodology. Please provide comments for each of these proposals, particularly as they relate to cost causation. If your organization has a preference for one over the other, please state your preference and why.

2. The ISO believes that demand response resources should have the opportunity to provide flexible capacity. The ISO has proposed how demand response resources could do so. Please provide comments on the ISO's proposal. Specifically, please identify concerns with the ISO's proposal and offer potential solutions to these concerns. Additionally, please comment on the proper forum (ISO, CPUC, etc.) where these concerns should be addressed.

[1] PG&E's specific proposal can be found at http://www.caiso.com/Documents/PG_E-Comments-FlexibleResourceAdequacyCriteriaMustOfferObligation-ThirdRevisedStrawProposal.pdf.

We propose that demand response be permitted to offer flexible capacity resources into the FRA market independently of generic capacity. The requirement under the “Adder Method” incentive mechanism that flexible and generic capacity be bundled together creates an unnecessary and potentially discriminatory hurdle for demand response resources. The requirement may apply readily to conventional generation capacity, where there are concerns about disincentives to offer both generic and flexible resources for a conventional generator. In the case of demand response, however, the resources developed to meet flexible capacity will likely need to be designed specifically for this market due to the peculiar nature of its requirements, and may not be developed to provide generic capacity. As a result, the generic capacity requirement acts as a direct disincentive to developing new flexible DR capacity. Additionally, as outlined in the CPUC’s most recent RA decision, “A resource owner may sell the flexible and inflexible capacity in separate transactions and to different purchasers. A megawatt may be sold only once as either flexible or inflexible.” We believe that the governing principle in the instance of the incentive mechanism should be that the megawatt may only be sold once, as either flexible or inflexible, as opposed to requiring bundling of the two resources to avoid selling the megawatt twice.

It is our understanding that CAISO Staff is reviewing the possibility of disaggregating the SCP and SFCP payments within the Adder Method; we strongly encourage staff to develop this capability. If it is determined that this approach is not reasonable, we recommend applying the “Bucket Method” for incentivizing DR participation in Flexible Resource Adequacy. We believe that DR resources can be treated equitably under either scenario relative to generation resources, while permitting DR participation by not insisting that they provide generic capacity.

3. Please provide comments and recommendations (including requested clarifications) regarding the ISO’s proposed must-offer obligations for the following resources types:

    a. Dispatchable gas-fired use-limited resources

        1. Please provide comments regarding the ISO’s proposal that would allow resources with use- limitations to include the opportunity costs in the resource’s default energy bid, start-up cost, and minimum load cost.

        2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

    b. Specialized must-offer obligations:

1. Demand response resources

While the Fourth Revised Straw Proposal does not clearly delineate the ability to dynamically bid for each resource, it is our understanding from talking with Staff that resources will be allowed to dynamically bid within the monthly and yearly obligation periods. Demand response resources have a wider range of dispatch costs – depending on frequency, timing and length of dispatch – than other resources. A resource may have a low cost for the first several instances of dispatch within a month or year, but the cost of dispatches could increase over time as DR resources risk losing customers as a result of fatigue or if their ability to continue commercial operations is impacted by frequent dispatches. As a result, it is important for these resources to be explicitly permitted to bid dynamically within a must offer period and this clarification would put the proposal in line with the CAISO's other market operations.

In addition the current proposal is still unclear with regards to the applicability of the opportunity cost methodology to demand response providing FRAC. It is our understanding from consulting with Staff that the opportunity cost methodology is not meant to be applied to demand response resources.

We understand that staff is working to clarify both of these issues in the next iteration of this document. We look forward to seeing those revisions, as they will provide much needed clarity on the ability of demand response resources to provide FRAC.

2. Storage resources

3. Variable energy resources

4. At the 11/13 stakeholder meeting there a significant amount of discussion regarding the appropriate method for setting the price for the proposed flexible capacity availability incentive mechanism. Please provide comments about how this issue might be resolved.

5. The ISO has proposed an SFCP evaluation mechanism/formula that weights compliance with the real-time must offer obligation heavier than the day-ahead must offer obligation. Please comment on:

    a. The merits of using such a weighting mechanism relative to the "lesser of" proposal from the previous proposal

    b. The relative weights between the real-time and day-ahead markets

6. There were several clarifying questions asked at the 11/13 stakeholder meeting regarding substitution of flexible capacity that is on forced outage. Please provide comments and / or questions (and potential answers) regarding any additional clarifications the ISO should make in the next revision to clarify this aspect of the proposal.

7. Please provide comments regarding how, or if, the SFCP adder price and the flexible capacity backstop price should be related.

8. Are there any additional comments your organization wishes to make at this time?

While the Straw Proposal requires bundling with generic capacity in order for a resource to provide flexible capacity, the Proposal does not permit bundling among resources for the provision of flexible capacity. Combinations of resources, including demand response and storage, as well these resources and renewables, should be allowed to fully participate in the bidding system. As has been previously noted in stakeholder comments, allowing partnerships among diverse resources to provide the needed flexible resource would create a more viable market for DR resources, and a deeper pool of resources for CAISO to deploy. For example, DR could potentially partner with a natural gas facility to provide flexible capacity, thereby achieving multiple state policy goals simultaneously: by delivering an offset to natural gas generation when DR is available, greenhouse gas emissions would be reduced; and such a capability would lower the compliance burden for both the gas-fired facility and the demand response resource, creating greater market efficiency and additional market access for a Preferred Resource. Similarly, energy storage and DR may be able to partner to provide flexible resources. If accommodating different combinations of resources necessitates an update of CAISO's technological ability, we respectfully urge CAISO to do so in the near future as it will expand the pool of preferred resources that can meet FRACMOO requirements.

Going forward, we believe that other issues should be evaluated as CAISO and market participants garner experience with how DR and other resources can best provide the needed services. These may be best addressed as part of a working group process that includes CAISO, CPUC, and CEC staff. In particular, we have the following concerns, which should be noted in the final proposal, and directly addressed through a robust process that is attuned towards creating needed changes to auction processes.

Given that the market for Preferred Resources is emerging, while the utilization of fossil fuel resources is quite mature, we are concerned that rules and institutional bias will result in an over-procurement of fossil fuel resources counter to the loading order. To address this possibility, we recommend that if the primary resources relied on to meet the FRACMOO requirements turn out to be fossil fuels, the LSEs should be required to submit clear explanations as to why they were not able to secure sufficient Preferred Resources that meet FRACMOO criteria, so that it can be determined whether bidding mechanisms should be modified to draw in additional Preferred Resources. CAISO can then act on this intelligence, by, for instance, providing greater flexibility levels in terms of required service hours, resource combinations, and/or other factors.

Over time, CAISO should foster a market in which a wide variety of product characteristics and sizes can participate to provide the needed services. These could include activating time-variant tariffs to achieve load reductions during specific times or days, as well stand-alone and combined tranches of other types of demand response, storage, and other resources. In order to encourage market development and participation, we propose that a greater range of must-offer bidding hours be allowed, with different compensation levels attached to distinct bid tranches. For example, a minimum bid of two hours during specified time periods should be allowed at the lowest end, up to an eighteen hour bid at the highest end for regulation energy management, with these bids allowed to occur within a single time period. Likewise, providers should be able to bid distinct bundles of services on different days.

We encourage CAISO to look for opportunities to catalyze this market, through backstop procurement (see above), or as part of the design of the multi-year ahead auction proposal. In this respect, CAISO should be cognizant of how decisions made in the recently launched demand response proceeding might reveal additional types of resources that could potentially provide needed reliability services.

Lastly, we thank CAISO staff for their tireless work on this proposal, addressing concerns highlighted in previous comments, and for considering these comments.