Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Third Revised Straw Proposal, Posted October 3, 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 third revised straw proposal on October 3, 2013, and issues discussed during the stakeholder meeting on October 9, 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 October 16, 2013.

A response to Question 4.b. is attached to this template.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. It is based on one possible measurement of the proportion of the system flexible capacity requirement to each LRA and calculated as the cumulative contribution of the LRA's jurisdictional LSE's contribution to the ISO's largest 3-hour net load ramp each month. Please provide comments regarding the equity and efficiency of the ISO proposed allocation. Specifically, please comment on:

    a. The ISO's proposal to use an LSEs average contribution to historic daily ISO maximum 3-hour load changes to allocate the Δ load component of the flexible capacity requirement.

    b. The potential of using historic average daily maximum 3-hour net-load ramps or time of day system maximum 3-hour load ramps (morning vs. evening ramps).

c. What other measurement or allocation factor should the ISO consider to determine an LRA's contribution to the change in load component of the flexible capacity requirement?

d. Should the ISO consider seasonal allocations for each component? What would these seasonal allocations look like?

2. The ISO believes the proposed methodology reflects causation principles. Specific to allocating flexible capacity requirements, what does "causation" mean to your organization and how would this definition be most accurately reflected in a flexible capacity requirements allocation process?

3. What are the appropriate bounds for the maximum and minimum for the error term as well as how to address year-to-year variability? What are the appropriate actions if such bounds are reached?

4. The ISO has proposed must-offer obligations for various types of resources. Please provide comments and recommendations regarding the ISO's proposed must-offer obligations for the following resources types:

    a. Resources not identified as use-limited

    b. 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.

    c. Hydro Resources

    d. Specialized must-offer obligations (please also include any recommended changes for the duration or timing of the proposed must-offer obligation):

        1. Demand response resources.

        2. Storage resources.

        3. Variable energy resources.

5. The ISO has proposed a flexible capacity availability incentive mechanism Please provide comments of the following aspects of this mechanism:

    a. The selection of the adder method as the preferred option

        1. Should the ISO still consider the bucket method, the "worse-of" method, or some other method not already considered? Why?

    b. The price for the flexibility adder. Specifically, if the ISO proposed price is not correct, what price or data source should the ISO consider and why?

    c. The interaction between the existing SCP and the proposed SFCP

    d. The proposed SFCP evaluation mechanism/formula

        1. The formula used to calculate compliance (including the treatment of long-start and use-limited resources)

        2. The treatment of forced and planned outages

        3. The minimum availability thresholds for use-limited resources

    e. The proposed substation rules for forced outages

    f. Please also include comments regarding issues the ISO must consider as part of the evaluation mechanism that are not discussed in this proposal.

6. The ISO has proposed to include a backstop procurement provision that would allow the ISO to procure flexible capacity resources to cure deficiencies in LSE SC flexible capacity showings. Please provide comments regarding the following issues of ISO's proposed flexible capacity backstop procurement proposal:

    a. The inclusion of the adder methodology

    b. The opportunity for LSEs to provide a list of uncommitted flexible capacity that can be used to help cure flexible capacity deficiencies

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

Comments of the Energy Producers and Users Coalition on the Flexible Resource Adequacy Criteria and Must-Offer Obligation Third Revised Straw Proposal Response to Question 4.b

Combined Heat and Power resources have unique operating and commercial conditions that challenge the proposed methodology for counting Effective Flexible Capacity. Due to their obligations to meet the operating requirements of their industrial hosts (*e.g.*, thermal or electrical energy), these resources may require a more detailed counting formula and greater discretion in setting the value that will be used by the ISO for counting an LSE's committed flexible capacity. The counting formula may also be affected by the nature of the contract commitments structured in the standard pro forma CHP contracts under the CPUC-approved CHP Settlement. The Third Revised Straw Proposal (Proposal) does not squarely address these issues, and CHP resources and LSEs would benefit from greater clarity.

As a preliminary matter, the Proposal appears to be inclined to minimize CHP host obligations in the counting process. The ISO has supported CHP resources because of their ability to meet their host obligations, most recently through the restatement of the rights of these resources to self-schedule certain amounts of their output as Regulatory Must Take Generation (RMTG). By setting RMTG levels, these resources ensure that they will be able to export sufficient energy to enable them to meet their obligations to the industrial host, including thermal energy. Section 7.1 of the Proposal, however, runs contrary to its other efforts, stating "*[t]he ISO's flexible capacity must-offer obligations include reducing resource self-scheduling as a means of increasing the pool of resources available for economic dispatch*." (p. 26) The Proposal should make clear that its goal is not to reduce self-scheduling to the detriment of CHP host operations.

In addition to this clarification, the Proposal could be improved by incorporating two additional clarifications. The final Proposal should:

- Clarify the inflexible nature of some CHP output and develop a counting formula that reasonably accounts for these conditions; and

- Confirm the ability of these resources to differentiate between generic RA capacity and flexible capacity to avoid impairing industrial host operations.

The Proposal differentiates the program for other atypical resources in Section 7.1, such as Dispatchable Gas-Fired Use-Limited Resources that "*are subject to environmental use-limitations mandated by a regulatory entity*." We recommend that the ISO add another subsection to Section 7.1 to address CHP resources.

Making these changes would be consistent with CPUC D.13-06-024. In that decision, the CPUC adopted the Differentiated Capacity Option, which requires the resource to bundle generic RA and flexible capacity. The Decision recognized, however, that not all of a generator's NQC may be flexible capacity but could nonetheless be sold as generic RA, noting P_{min} as an example of inflexible capacity. Page A-2 of Appendix A of the Decision states:

> *Flexibility within a resource is counted by the Differentiated Counting Option. According to the "Differentiated Capacity Option", capacity that is inflexible, such as megawatts associated with Pmin, must be sold as generic capacity, not flexible capacity. Any flexible capacity must-offer obligation only applies to the flexible portion of the capacity. A megawatt of capacity can only be sold once as either generic or flexible.*

While the Decision used Pmin as an example of inflexible capacity, it was not intended to limit the scope of inflexible capacity for all resources. The Decision addressed a limited universe of inflexible capacity, including hydro resources with storage capability. It also provided that *"[t]he rules for other use-limited, preferred and combined cycle resources will be developed by June 2014*;" because CHP is generally considered a preferred resource, it was assumed that modified protocols for CHP would be developed. The Proposal, however, appears to limit the scope of Preferred Resource to demand response, energy storage and intermittent resources. Despite comments on the Second Revised Straw Proposal suggesting approaches to accommodating CHP, nowhere does the current Proposal recognize the need for a protocol to address CHP inflexible capacity arising from the resource's host load obligations.

Inflexible capacity for CHP, like other preferred resources, may require a modified counting formula to ensure an accurate accounting of EFC. Using the generic protocol proposed by the Decision and the CAISO Whitepaper (NQC – Pmin) could overstate the availability of EFC. More importantly, it could put the CHP in a position where it cannot self-schedule up to its RMT_{max} without risking noncompliance with the EFC must-offer obligations under certain types of agreements.

Part of the issue stems from the existence of standard CHP contracts approved by the CPUC. The Legacy PURPA contracts do not address this issue in any way. The newer contracts based on the CHP Program Settlement form simply specify that the facility is providing Resource Adequacy Benefits (not RA or Flexible Capacity). There may be differences of interpretation regarding whether this means generic RA or bundled generic RA and flexible capacity. In addition, certain resources may be under contracts that expressly limit their total annual grid exports; these resources are more in the nature of the environmental use-limited resources, but also have different concerns.

If the Proposal's standard formula (NQC-Pmin) is used for CHP, it will in many cases overstate the resource's flexibility. If that calculation were taken as a measure in existing or standard contracts of the CHP's RA obligation, some CHP facilities could not meet their MOO. Consequently, as the CPUC did for generic RA, the counting formula must take into account the host obligations and the variable output of as-available resources.

The Proposal should more reasonably accommodate CHP operating conditions. While the Proposal or presentations used in the Stakeholder process may allude to certain of these points, the Proposal would benefit from an effort to clearly address these circumstances.

1. A CHP resource should be permitted to specify an EFC value annually and monthly to reflect its unique operating requirements related to industrial host obligations or CHP contract limitations, provided that it does not exceed the EFC prescribed by the ISO's default thermal resource formula (NQC – Pmin). This will ensure that a CHP's MOO does not interfere with its ability to self-schedule RMTG.

2. A CHP resource, or any generating resource, will have the ability to designate or sell any portion of its EFC range as "generic RA capacity." To the extent the generic RA capacity is not bundled with flexible capacity, it could either be self-scheduled or be economically bid, but would not have the Flexible Capacity Must-Offer Obligation to submit economic bids.

   Take, for example, a 150 MW resource with an EFC of 100 MW that has the option to sell 40 MW of the EFC range as "generic RA" and 60 MW of flexible capacity, as long as flexible RA MWs are not also sold as generic RA (selling capacity twice). This generic RA portion associated with the EFC range would be in addition to the generic RA associated with the inflexible range (*i.e*., 50 MW inflexible range + 40 MW EFC range) resulting in 90 MW of generic RA, 60 MW would be flexible RA.

3. For outages (planned or unscheduled) and de-rates resulting in partial capacity availability, a generating resource that has both generic and bundled generic/flexible capacity should have the discretion to designate whether the available capacity is generic RA (self-scheduled) or flexible RA (economically bid) that will be subject to Capacity Availability Incentive Mechanisms.