

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 proposal¹ 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.

With regards to current proposals to allocate flexible capacity requirements, IEP supports the CAISO proposal to allocate monthly flexible capacity procurement requirements to each Local Regulatory Authority ("LRA") in proportion to its jurisdictional Load-serving Entities' ("LSEs") contribution to the 3-hour net-load ramp. This approach aligns more closely with common, historical practice for securing needed capacity, e.g. the existing resource adequacy ("RA") program in which an obligation to procure both local and generic RA capacity currently is imposed on LSEs. In addition, the CAISO proposal aligns best with the current procurement practices in which the LRAs (e.g. CPUC or Local Governing

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

Boards) direct their jurisdictional LSEs to procure sufficient resources to meet public policy objectives such as the statewide RPS. Altering this paradigm for purposes of the flexible capacity requirement would undermine procurement efficiency and consistency and, thereby, impose greater risks on overall electric grid reliability.

On the other hand, the PG&E proposal to allocate flexible capacity requirements to each Scheduling Coordinator (“SC”) simply has the effect of shifting an RA obligation onto the backs of preferred resources, i.e. Variable Energy Resources (VERs), that opt to serve as their own SCs, rather than relying on the utility to serve as the SC. This is impractical and unnecessary for the following reasons:

First, the PG&E proposal raises issues of fairness and concerns regarding undermining procurement policy and practices. While perhaps limited in scope, PG&E’s proposal will impose additional costs on VERs in which the resource serves as its own SC. This is particularly problematic for VER resources that entered into a fixed price contract for a number of years after having been selected by a utility in its Least-Cost/Best-Fit (“LCBF”) RPS procurement. Thus, this approach inequitably and unfairly places these resources in double-jeopardy or, alternatively, imposes additional unnecessary costs on these preferred resources. As a result, existing contracts would need to be grandfathered for their duration, and this would inevitably result in a bifurcated regulatory environment related to the flexible capacity obligation which will only complicate and undermine market and administrative efficiency.

Second, PG&E argues that its approach is necessary in order to mitigate the risk of “free ridership,” particularly free ridership associated with a relatively small amount of production from VER owned/operated by public power entities. If this is a concern, IEP suggests that mechanisms can be developed to ensure that all LSE’s for load absorb their appropriate share of flexible capacity obligations without undermining the progress made in RPS procurement over the years.

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.

See IEP Comments below in response to Question 8.

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

See IEP Comments below in response to Question 8.

- 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
 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?

IEP supports the CAISO's active engagement in developing a Flexible Resource Adequacy Criteria and Must-Offer Obligation. Since the beginning of this stakeholder process, we have expressed our general support while awaiting full development of the concept/proposal. As a general matter, our view has been that the CAISO should focus on developing a specific product (or set of products) needed to meet the flexible operational requirements of the electric grid. In this regard, we have believed that the critical goal must be to: (a) define the flexible capacity operational needs and translate those needs into one or more products; (b) recognize that most, if not all, supply and demand resources have use limitations in one form or the other, which can and should be reflected in the Resources Master File; (c) recognize that use-limitations may hinder resource availability, whether the limitations are technological in nature (e.g. CHP, hydro) or environmental in nature (e.g. limitations of ERCs for gas-fired generators), but the goal should be to expand supply of bidders to the extent practical; and, (d) facilitate open, transparent competition between supply and demand resources to meet the flexible operational needs at the least-cost. Importantly, IEP believes these goals can and should be met in a non-discriminatory manner.

The CAISO began this process with the intent to develop a standard flexible capacity product (SFCP) for the CAISO markets, aligned with the CPUC's policies related to resource adequacy. In striving to achieve this outcome, the CAISO now proposes a SFCP including a Must-Offer Obligation. The SFCP is based on a 17-hour availability in order to cover two, 3-hour ramps forecast for each day. The SFCP imposes a Must-Offer Obligation ("MOO") for the duration of the 17-hour period, and the MOO includes a performance/availability obligation on all resources providing the standard product. Associated with this performance obligation is a so-called "incentive payment," i.e. penalty imposed on resources for non-performance. As a result, resources have financial penalties for non-performance.

As the CAISO has learned during this stakeholder process, the reality is that many resources, including "preferred resources," face individually and collectively myriad use-limitations. These use-limitations often effectively constrain individual resources

(supply and/or demand) from meeting the availability requirements of a 17-hour SFCP product. In response, the CAISO has proposed a “rule-based” system in which the CAISO sets a SFCP performance obligation overall, but then establishes various ‘rules’ that essentially exempt specific resources (e.g. storage, DR, hydro.) from meeting the full availability requirement. While not required to meet the same performance obligation for the entire 17-hour obligation, the selected use-limited resources apparently will be fully counted (and apparently compensated) as if they were meeting the same performance obligations as other resources. It is important to note, that the magnitude of the penalty for non-performance/unavailability is many multiples of the revenue opportunity for being available and clearing the market. Hence, lessening the must-offer obligation for specific resource types pursuant to the CAISO’s latest proposal provides a significant competitive advantage derived solely from the rule-based approach.

Ultimately, regarding the creation of a new product in a FERC-jurisdictional wholesale market, IEP suspects that the SFCP has to meet the following test: are all resources being treated in a non-discriminatory manner? For certain preferred resources, the CAISO’s Fourth Straw Proposal relies on rule-based exemptions to meeting the SFCP product definition (i.e. 17-hour availability/continuous 3-hour ramp), while counting and compensating these preferred resources as if they were meeting 100% of the 17-hour flexible capacity must-offer obligation. IEP is increasingly concerned the CAISO’s “rule-based” approach to implementing a SFCP risks discriminatory outcomes. Other parties have raised similar concerns in response to the CAISO’s proposal -- see SCE Comments on Third Straw Proposal.

At this point, IEP offers two recommendations.

First, IEP recommends adding time to the current stakeholder process as needed to fully assess the market design being proposed. It serves no one’s interest to have the SFCP proposal overturned at the FERC. This would impose at least a two year delay in implementing a flexible capacity product in California. Currently, the schedule has the staff presenting a final proposal for CAISO Board consideration and approval in February 2014. Given the holidays in November/December, and the heavily workload in January that always appears, we believe that a modest delay in this schedule is warranted; tackling the issue of potential discriminatory effects now is warranted even if it risks delaying CAISO Board consideration a few months.

Second, IEP recommends that the CAISO should consider more fully how best to align the product definition for a SFCP with the use limitations faced by resources, including the “preferred resources.” Currently, as noted above, the proposal is to have a single product, and then create rules to facilitate greater participation of use-limited resources. Yet, this approach has raised concerns regarding discriminatory treatment.

Alternatively, the CAISO might consider further specification of the product or products sought to meet the multiple daily ramping requirements. For example, currently the CAISO seeks a single daily SFCP product based on a 17-hour availability to cover two discrete 3-hour ramps per day. This 17-hour availability requirement constitutes the basis of the proposed Must-Offer requirement. However, as noted by many in the stakeholder process, some resources may not be operationally capable of being available for a 17-hour requirement nor have the latent capacity to meet both 3-hour ramps during the day. To date, the CAISO has proposed “rules” to enable certain resources to count fully for flexible RA and get compensated accordingly, while recognizing that these resources are effectively avoiding the otherwise standard 17-hour availability/must-offer requirement.

Perhaps to start, the single product needs to be dis-aggregated into two discrete products, namely a “morning-availability SFCP” and an “afternoon-availability SFCP.” This should enable various use-limited and/or preferred resources the opportunity to provide flexible capacity in the market based on their physical capabilities, and they would be accounted for accordingly in the marketplace. On the other hand, resources tested to be capable of meeting both products, i.e. morning and afternoon availability/ramp, also would be afforded a market-based opportunity to do so and realize the presumably associated higher value. By disaggregating a single product into two discrete product periods, the CAISO may obviate the need for designing a “rule-based” market with the concomitant claims of discrimination, while ensuring the availability of sufficient resources to meet the operational needs of the CAISO over the entire day.