

# Stakeholder Comments Template

## Subject: Reliability Services

Submitted by	Company	Date Submitted
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Following the Working Group meeting on December 10, 2014, IEP is pleased to provide these comments on the Reliability Services Initiative. At this point, IEP provides relatively limited comments and observations, and we await circulation of the Draft Final Proposal for a more comprehensive assessment.

- 1. Proposal for Additional Penalties during CPM Designation.** The proposal is to impose on suppliers an additional penalty when a unit is undergoing a forced outage which causes a CPM designation. As IEP understands the proposal, rather than make generators subject to the RA Availability Incentive Mechanism (RA AIM), suppliers undergoing a forced outage that result in a CPM designation should face a higher “incentive” price mechanism, i.e. a higher penalty, set at the CPM soft offer cap rate.

IEP opposes the proposal as we understand it. First, after many months of discussion directed toward setting an appropriate incentive mechanism, the proposal now is to disregard that concept and replace it with a more onerous “penalty” obligation without any due consideration for context, whether additional “incentives” above the RA AIM are needed, etc.

Second, IEP notes that the penalty concept is incongruous with the long-standing principle related to Forced Outages, i.e. “Forced is Forced.” Forced outages are by definition unexpected and considered beyond the control of the supplier. Imposing a “penalty” above and beyond the RA AIM for suppliers undergoing a Forced Outage is unreasonable and unnecessary.

- 2. Exemptions.** The proposal is to exempt resources from flexible and generic AIM assessments. These exempt resources include (a) Contracts for Energy from non-specified resources, (b) Modified Reserve Sharing LSE and Load following MSS resources, (c) Qualified Facilities (QFs) in accordance with current tariff, and (d) Grandfathered resources under specific conditions.

IEP's understanding, based on the CAISO's representation, is that all supply-side resources integrated into the CAISO wholesale markets will face comparable treatment with regards to application of the AIM. Moreover, to date exemptions within the overall RA construct have reflected statutory realities (e.g. QFs functioning under the provisions of PURPA); use-limitations associated with operational and/or environmental constraints, etc; and/or, pre-existing contractual obligations. IEP supports this general approach.

Consistent with the principle of comparable treatment, IEP fails to appreciate and thus does not support exemptions for (a) "non-specified resources," (b) modified Revenue Sharing LSE and Load following MSS resource. First, IEP fails to appreciate how "non-specified resources" can meet RA requirements. Accordingly, we would appreciate clarification as to how and in what conditions non-specified resources are eligible for RA.

Second, irrespective of the clarification, IEP believes that resources generally should be held to a comparable availability standard (recognizing legal, environmental, and/or operational constraints). For the CAISO to design use-limited classifications unique to these resources but not conditioned by legal, environmental, and/or operational constraints risks discriminatory outcomes.

3. **Treatment of Existing Contracts.** As noted above, the proposal is to provide exemptions to grandfathered resources defined as those resources selling capacity under a resource specific contract entered into prior to June 28, 2009, and for which the Scheduling Coordinator asks for an exemption and can demonstrate the contract either (1) has penalties for non-performance or (2) does not have a reopener clause due to ISO market design changes.

Regarding grandfathered contracts, IEP would hope that Buyers and Sellers engage in fruitful discussions to modify existing contracts to conform to CAISO market design changes. In practice, however, this is complicated and often difficult.

In a limited number of instances, the Buyer who serves as the SC for the resource may have little incentive to seek the exemption for Existing Contracts provided by the CAISO (e.g. if the existing contract enables the Buyer to pass through to the Seller AIM related costs) irrespective that the resource may not have a reasonable means to recover such costs (e.g. its operating under a fixed-price arrangement). While these cases may be limited, the impact on the Seller may be quite significant. Accordingly, within the context of the Treatment of Existing Contracts, IEP recommends that CAISO provide for the opportunity for the Seller (i.e. the resource) on its own initiative to ask for an exemption under the conditions that it "can demonstrate the contract either (1) has penalties for non-performance or (2) does not have a reopener clause due to ISO market design changes" such that the Seller/Resource has no means to recover AIM related charges.

4. **Forced Outage Reporting Rules.** The CAISO proposes that RA resources with a Pmax between 1.0 and 10 MW are not required to report their availability near real-time, but

must provide Forced Outage(s) or de-rates and temperature related ambient de-rates no later than 3 business days after the end of the calendar.

Under current policy initiatives, increasingly small-scale distributed resources are being used by Load-serving entities (LSEs) to meet RA obligations. When RA deficiencies occur and are not cured within a timely manner, the CAISO is expected to utilize its CPM authorities to call on replacement units. Accordingly, it is increasingly important that RA resources, to the extent practical, be treated comparably including reporting rules. IEP is concerned that exempting RA resources up to 10 MWs, when an increasing amount of resources of this size will be used for purposes of RPS compliance, risks undermining the transparency of RA program implementation.

5. **Use Limited Resources: Change in Treatment Generally.** The CAISO proposes to reconsider the treatment of various “use limited” designations. As noted by the CAISO, changes in “use limited” designations impact generated bid rules, AS bid insertion rules, and RUC participation rules.

As a general matter, IEP is concerned that the potential impact and cost imposed on resources due to the proposed changes are not warranted by the expected benefits. Moreover, IEP is not aware that the general policy related to “use limited” resources is undermining grid reliability in general or CAISO markets specifically.

Finally, IEP notes that the policy related to ‘use-limited’ resources was grounded in the recognition that these resources’ operations were constrained by either legal (e.g. PURPA), policy (e.g. environmental permitting), and/or inherent operational conditions. Certainly for existing resources, these constraints likely have not altered. Thus, overall, IEP questions the need for changing the “use-limited” treatment of resources, particularly those that currently have such status. Certainly, even as regards new QF resources, the fact that PURPA persists is important, as PURPA provides the legal and regulatory underpinning of the operations of QF resources.

6. **Use Limited Resources – Resource Specific Changes.** The CAISO is proposing a number of changes to its existing policy related to use-limited RA resources. In response, IEP seeks additional clarity regarding the following issues:
  - a. **Wind, Solar Resources with “Paired” Behind-the-Fence Storage.** Currently, the CAISO proposes to change the classification of wind and solar resources from “Use-Limited” to “Not Default use-limited.” What is the proposed treatment for wind and solar resources with “paired” storage, including (a) “behind-the-fence” paired storage and (b) other “paired storage” perhaps out-the-fence?
  - b. **Regulatory Must-Take (QF and Nuclear).** Currently, QF resources and nuclear resources are treated as use-limited. The proposal is to change their designation to “not use-limited – regulatory must take.”

As regards QF resources, these resources are regulatory “must-take” essentially due to their status as PURPA-based resources, i.e. their status is prescribed in

federal statute and a number of state statutory prescriptions. Moreover, existing QF resources operate consistent with long-standing CPUC policies and operate pursuant to CPUC-approved long-term contracts. These contracts prescribe the parameters of the QF's operations and responsibility for delivering power to the Buyer, including the QF's "must-take" status.

As regards nuclear resources, IEP is not aware of any similar, statutorily-based treatment for nuclear resources. Accordingly, we view their designation as "regulatory must-take" as inappropriate and unwarranted.

- c. **Baseload Resources (Nuclear, Geothermal, Biomass).** The proposal is to treat non-QF, new Geothermal and new biomass/landfill gas as "not default use-limited." On the other hand, nuclear resources are to be treated a "not use-limited, regulatory must-take."

The argument for treating nuclear resources differently than other baseload resources was presented by CAISO staff an issue of operational efficiency. IEP disagrees fully with this artificial distinction.

By definition, all baseload resources likely lose operational efficiency when not operated in baseload mode. This includes geothermal, biomass, and landfill gas resources typically treated operated as a baseload resource. The risk of degrading a unit's *operational efficiency* does not distinguish nuclear resources from other types of baseload resources, and therefore it ought not to be used to shield one baseload resource (i.e. nuclear) from the treatment imposed on other baseload resources (e.g. geothermal, biomass, landfill gas). The CAISO's proposed treatment raises a concern of unwarranted, and perhaps unlawful, discriminatory treatment.