



June 26, 2014

Submitted by email to the CAISO at RSA@caiso.com

RE: LSA comments on Reliability Services Straw Proposal

The Large-scale Solar Association (LSA) hereby submits these comments on the June 5 Reliability Services Straw Proposal (Proposal), and the subsequent discussion at the June 12 stakeholder meeting. LSA's comments relate to the Availability Incentive Mechanism (Part 2 of the Proposal), including the proposed elimination of the current Resource Adequacy (RA) Standard Capacity Product (SCP) exemptions from availability incentives and penalties, and potential changes to the parties responsible for RA replacement (Section 7.4 of the Proposal).

Availability Incentive Mechanism (AIM)

LSA sees no compelling reason to revise the current RA SCP availability mechanism (or, as noted in LSA's earlier comments on the SCP, to have any such mechanisms at all), at least for Variable Energy Resources (VERs). VERs – whether or not they are covered by the current SCP mechanism – are already highly incented to be available at all times when their “fuel” is available, and especially during the hours when these mechanisms operate, for the reasons explained below.

Virtually all VER Power Purchase Agreements (PPAs) feature both volumetric payments only and time-of-day energy payments. Thus, VERs are not paid at all unless they produce energy, and their energy payments are much higher in the on-peak hours that are the primary focus of both the current and proposed incentive mechanisms. Other PPA features – including minimum production guarantees – provide additional incentives for high availability levels.

That said, LSA does not object to a bid-based RA AIM in general. However, any bid-based framework must address the imbalance between decision-making and consequences that it could create, given the terms and conditions of most PPAs.

Under most VER PPAs:

- The Buyer is the Scheduling Coordinator (SC) for the resource and is free to schedule the resource and may schedule/bid the resource in any manner that it wishes. As long as the resource fulfills its obligations under the PPA to provide availability, meteorological, and other data to the Buyer, the latter assumes all imbalance-related risks and consequences of imbalances.
- The Seller assumes all responsibility for availability reporting to the CAISO, and any resulting RA SCP incentives and penalties.

Section 6.9 of the Proposal states that solar resources “will be considered 100% available” when “the resource is bid in up to the forecast amount.” Most VERs are in PIRP, and the CAISO produces forecasts and submits schedules for those resources equal to those forecasts. Thus, it appears that PIRP resources would not be assessed any penalties under the AIM. (This conclusion is supported by the provisions in Section 6.10 of the Proposal exempting capacity unavailable due to forced outages or derates from the AIM availability calculation.)

In many PPAs, the Buyer decides whether or not a VER joins PIRP. There is little a VER can do if: (1) the VER is not in PIRP; (2) the Buyer is the SC; and (3) that SC submits a schedule/bid that is not consistent with the forecast. In general, in fact, VERs under PPAs where the Buyer is the SC do not even know what forecasts or schedules/bids are submitted on their behalf.

Thus, if the CAISO implements a bid-based RA AIM, it should also incorporate a proxy bid insertion feature for the difference between the forecast and the schedule, where the Buyer is the SC and the VER is not in PIRP. This bid insertion is not needed where the Buyer is not the SC, since presumably in those circumstances the Seller can determine both forecasts and schedules/bids, and thus fairly bear the consequences of any differences between the two.

Elimination of current RA SCP exemptions

The RA SCP mechanism exempts VERs operating under PPAs executed before August 2010 for the life of the agreements, because they could not have known they would be subject to such mechanisms. The Proposal (Section 6.12) “does not propose to automatically apply the same exemptions to the new availability incentive mechanism” but will “seek to exempt” only a select set of resources that are physically or uniquely unable to fully comply with their must-offer requirement.”

The Proposal justifications for this proposed exemption revocation, and LSA’s responses to these justifications, are detailed below.

- **“The significant amount of capacity exempt from the current incentive mechanism... the ISO does not think it is in the best interest of reliability to expose only a portion of resources to new rules needed to reliably integrate renewable and preferred resources.”**

The amount of capacity under the exemptions is not new information, as the procurement contracting status of the CPUC-jurisdictional LSEs (the large majority of the procurement market) is regularly provided in public reports and has been so for years.

Moreover, as noted above, there are significant availability incentives already in VER PPAs. The Proposal offers no evidence that these incentives are insufficient or that exempt resources have availability that is any lower than similar non-exempt resources..

- **“The ISO will not implement the new availability incentive mechanism until 2016. Additionally, many contracts will have to be and have been reopened due to the new flexible RA requirement.”**

PPA parties may choose to re-open their agreements to accommodate the new flexible RA requirement. However, the Effective Flexible Capacity requirements are such that it is not clear to what extent VERs may qualify as flexible RA capacity or that those contracts need to be reopened at this time.

- **The rapidly changing energy landscape.”**

PPA parties execute contracts specifically to provide certainty despite any “rapidly changing landscape.” This is insufficient justification for upsetting long-term commercial agreements already in place.

RA Replacement responsibilities

The Proposal contains in Section 7.4 vague language related to RA Replacement:

There may be benefits of reduced complexity in the replacement rules which could be achieved by altering the current structure of which entities are responsible for replacement, and possibly subject to the availability incentive mechanism. This includes both making the requirement entirely the responsibility of the supply, and allowing the LSEs to have the responsibility of replacement and the incentive mechanism.

LSA (in its joint comments with CalWEA) argued in the RA Standard Capacity Product Phase II stakeholder process (which led to the current RA replacement rules) that it was unfair to place RA Replacement responsibilities on Sellers. Generally, there is no organized capacity market and no ready way for generation owners/operators to tell which potential RA capacity is uncommitted and available in the market.

LSEs, on the other hand, have vastly more knowledge about the RA contracting and commitment status of different resources. They can and do impose availability standards on their RA resources through standards and obligations in their PPAs. Thus, LSEs are best equipped to exercise RA Replacement responsibilities.

This is still LSA’s position. LSA believes that this position meets the CAISO’s criteria in the Proposal – “treats all market participants fairly and equally,” “reduces complexity,” and “will continue to ensure that the resource adequacy program provides the grid with the reliability it has been designed for.” Placing additional RA Replacement obligations on suppliers would accomplish none of these things, and LSA urges the CAISO not to move in that direction.