651 Commerce Drive
Roseville, CA 95678

phone (916) 781-3636
fax (916) 783-7693
web www.ncpa.com

Comments of Northern California Power Agency
Reliability Services Revised Straw Proposal

September 10, 2014

Northern California Power Agency ("NCPA") appreciates the opportunity to provide the following comments in response to the CAISO's Reliability Services revised straw proposal ("Revised Proposal").

Additional Flexible Capacity Needs Allocation Issue

CAISO proposes in Section 4.6 of the Revised Proposal to add a new requirement that a load-following MSS LSE is required to make a showing of flexible capacity to CAISO for any flexible capacity requirement assigned to it that is directly attributed to a variable energy resource that is not contained in its load following MSS portfolio. NCPA does not object to this new requirement as a supplement to the FRAC-MOO tariff amendments, in order to provide that a load-following MSS will make a flexible capacity showing for any variability that is not already managed by the load-following MSS requirements. While NCPA does not currently have any variable energy resources outside of its load-following MSS portfolio, NCPA understands and does not object to the concept.

Availability Incentive Price

As described in Section 6.7 of the Revised Proposal, CAISO proposes to use $3.5/kW-month as the availability incentive mechanism price. NCPA supports CAISO's proposed price. The price should be structured to strike a balance between providing an incentive for resources to perform routine maintenance in order to reduce the chance of unexpected outages, and not punishing resources that may experience very occasional unplanned outages in spite of good maintenance practices. The current SCP rate of $70.88/kW-year is overly punitive. To take one example, NCPA has recently experienced a situation in which one of its resources experienced an unpreventable forced outage that lasted for approximately five (5) days. During the five (5) day forced outage period, the resource was penalized for SCP non-availability. In this instance, the profits earned by the resource for an entire monthly period were effectively wiped out

due to an unpreventable five (5) day forced outage and the severity of the current SCP rate. This is not an equitable balance of risk and reward. While generators can and should take actions and make best efforts to perform maintenance in order to reduce the risk of unplanned outages, in the real world "stuff" happens. It is unrealistic to assume that a resource will never experience an unplanned outage, even if well-maintained. Therefore, NCPA strongly believes that the rate set by the CAISO should be structured to provide incentives to perform preventive maintenance, but not so high as to wipe out the benefit of the unit participating in the market for a given month when the reality is that units will occasionally experience outages despite best efforts to prevent them.

Regarding CAISO's question for how the rate should be adjusted over time, NCPA supports adjusting the rate based on actual market data, using information provided by the CPUC and other local regulatory authorities, to ensure the price set is consistent with current market prices. NCPA also supports developing an automated or formulaic approach for updating the price, rather than reevaluating the price through a formal stakeholder process, if the price is to be updated frequently. This would improve the transparency and durability of the price, and will avoid having to open Pandora's Box each and every time the price is reset.

Local Substitution Rules

As described in Section 9.2.4 of the Revised Proposal, the CAISO currently requires that local resources that become unavailable due to a forced outage can only be substituted with local resources located at the same electrical bus. While this concept may seem logical from an engineering perspective, in reality it is unlikely that there are many resources available for substitution that are in fact located at the same bus as a resource that experiences a forced outage; therefore this rule does not provide much benefit or flexibility for a resource to address the situation in which it experiences a forced outages. NCPA strongly supports CAISO's effort to explore alternatives to this rule, including assessing whether the definition of a local resource for substitution can be expanded to include those resources that are capable of provide similar reliability benefits as the original resource, but are not required to be physically interconnected at the same bus.