Submitted By	Company	Date Submitted
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NRG provides comments on a single area of the Straw Proposal: substitution for RA resources in local capacity areas. NRG also provides brief comments on the CAISO's discussion of "compatibility" at the August 26 meeting.

NRG reiterates its appreciation of the CAISO providing NRG the opportunity to present its position on this matter at the August 26 meeting.

To reiterate:

- The CAISO effectively turns "local capacity" into a much higher quality product the closer real time approaches, as described below. This "quality creep" is the result of these factors:

  - **Compliance with RA targets for local capacity is measured on a wide basis.** To begin with, load serving entities (LSEs) need only comply with a forward showing (annual or monthly) on a local area basis. A MW of capacity within that local area counts the same as a MW of any other capacity within that local area, regardless of location.

    Once the showing of capacity within a local area has been made, the CAISO conducts a study to see if that collective amount of capacity meets its reliability needs. If LSEs have shown an amount of capacity that meets the numerical target, but the CAISO determines this collective capacity does not satisfy the local area reliability need, the CAISO will declare a "collective deficiency", which it may remedy through its capacity backstop authority. (To date, the CAISO has never found a collective deficiency.)

    While LSEs may provide capacity anywhere within a local area, closer to real time, the CAISO may require that any local capacity that is forced out be replaced at the same bus. Because the CAISO does not enforce procurement requirements on a bus-by-bus basis, but may enforce substitution requirements on a bus-by-bus basis, the CAISO turns local capacity into a higher quality product than what is transacted between buyers and sellers.

  - **The local area targets look at the system in a particular configuration, but the CAISO must operate the system in all configurations.** The numerical target for a local area's need is determined through studies focused on meeting the need defined by a given set of contingencies under peak load conditions. However, in reality, the need for capacity at a particular location at a given point in time may be driven by totally different conditions. The need for capacity at a particular location may be higher, even under loads lower than that studied for the annual local capacity analysis, due to other transmission or generation outages. This reality is not enforced on LSEs in forward showings. Instead, the CAISO enforces this reality on RA sellers by imposing strict rules on substitution.

Again, currently, the CAISO may – or, likely, will - require that the substitute capacity be located at the same bus as the unit experiencing the outage. This means that while LSEs are allowed to procure a more generic local capacity over the entire local area, suppliers essentially sell a local capacity product with a set of attributes that will not be determined until actual market conditions are known. This means that suppliers having sold that capacity have a very limited set of options with which to replace or substitute that capacity.

- Despite the fact that they have the same offering obligation, system and local capacity are very different products.
  - First, the obvious difference: local capacity must be procured within a local area, while system capacity need not be.
  - Second, because of the CAISO's rules for substitution, the products have very different risk profiles. A scheduling coordinator (SC) can use any capacity to substitute for system capacity not within a local area. With regards system capacity sold in a local region, however, an SC must substitute local capacity from within the same area, and usually at the same bus. This raises the risk profile dramatically.

    Given the systemic differences in the average prices for the two products, this means that an SC that sells system capacity in a local area takes on a much higher risk for much lower compensation.

    As NRG noted on August 26, simply counseling SCs that they should not sell system RA within a local area if they do not want to take on this risk profile is a cavalier response. Often times, such entities are faced with the Hobson's choice of selling capacity within a local area as system capacity or not selling it at all. Moreover, if they refuse to sell the capacity, or seek a price for the capacity commensurate with the risk they take on of having to replace within the same local area (or, more likely, at the same bus), they could be accused of withholding.

NRG offers this solution:

- Add a field to the showing and supply plan templates in which the LSE and the capacity provider indicate how the product was transacted – as system or local.
- The CAISO should run its collective deficiency analysis using all capacity that was shown, independent of how it was transacted. In other words – the CAISO should NOT remove

from the study resources that were procured as system capacity within a local area.

- In real-time operations, the CAISO should impose a substitution obligation consistent with how the product was transacted. If the capacity on outage was sold system capacity – the substitution is unrestricted by location.

- If a system resource within a local area chooses to replace with system capacity outside of a local area –

    - The LSE should be allowed to make supplemental showing providing the additional needed capacity within that local area. The LSE may have additional capacity within that local area under contract already, or may be able to acquire that capacity in a reasonable time frame.

    - If the LSE cannot show the needed additional capacity, the CAISO may issue a CPM designation. However, just as the SC of a resource sold as system capacity within a local area should not be forced to take on a substitution obligation inconsistent with how their resources were contracted and paid, the SC of the resource on outage should not be unjustly rewarded for the forced outage of their system unit within the local area. The incentives for both buyers and sellers are difficult to untangle, but something is needed to both: (1) discourage LSEs “leaning” on system capacity within a local area to meet the true local area needs, and (2) prevent suppliers from unjustly benefitting from the outage of their own system capacity sold within a local area (i.e., benefitting from the outage of a resource they own). To be clear, a supplier receiving the going local capacity rate for capacity that, while sold as system capacity, meets a local need is NOT unjust enrichment.

- The goals of all of this should be to:

    - Create the right incentives for LSEs to procure an amount of local capacity within a local area adequate to operate that local area under all conditions, not just under the conditions studied in the local capacity analysis, and

    - Leave the seller with a replacement/substitution obligation, risk profile, and associated compensation commensurate with the capacity product they have sold.

Compatibility

NRG greatly appreciated the CAISO’s impromptu discussion of the work it is doing to broaden the concept of substitution “compatibility” beyond “replace at the same bus.” NRG looks forward to the release of, and a robust stakeholder discussion on, the CAISO’s analysis.