

Stakeholder Comments Template

Subject: Standard Capacity Product

Comments due COB Thursday 9/11/08

Submitted by	Company	Date Submitted
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The CAISO is requesting written comments on the *Standard Capacity Product Issue Paper* that was discussed at the September 3rd Conference Call. This template is offered as a guide for entities to submit comments; however participants are welcome to submit comments in any format. There is a section at the end of the document to comment on topics that may not be covered in this questionnaire.

All documents related to the Standard Capacity Product Initiative are posted on the CAISO Website at the following link:

<http://caiso.com/2030/2030a6e025550.html>

Upon completion of this template please submit (in MS Word) to scpm@caiso.com. Submissions are requested by close of business on Thursday, September 11, 2008.

Please submit your comments to the following questions in the spaces indicated. If you are offering proposals or recommendations, please provide the business justification or other rationale for your proposals, including illustrative examples wherever possible.

SCP Overview

- Slide 8 of the “Review of the Standard Resource Adequacy Capacity Product Issue Paper” presentation (<http://caiso.com/2030/2030a6e025550.html>) provides an overview of the SCP in the RA Process. Do you agree with this characterization? If not, how would you modify it?

Generally speaking, yes. A generator interconnected to the CAISO grid obtains the right, but not the obligation, to sell an SCP Tag for Resource Adequacy (RA) Capacity for any

given month in a RA Compliance Year by being included in the Net Qualifying Capacity (NQC) Report posted by the CAISO in anticipation of that RA Compliance Year.

By selling an SCP Tag for a portion of its listed NQC for a given month, the generator obligates itself to the CAISO to be a RA Resource supplying RA Capacity for that portion of its NQC for that month. The Scheduling Coordinator (SC) for the RA Resource would report it, as appropriate, in the Resource's annual and monthly supply plans.

The SC for an LSE holding an SCP Tag for a given period of time is entitled to use it to meet its RA compliance requirements for that period of time.

Roles and Responsibilities

2. What is the dividing line between the obligations of suppliers of RA capacity and those of the LSEs? Does the LSE's responsibility end with its submission of SCP tags to meet its RA requirements, or would there be circumstances where a supplier's failure to deliver required some action on the part of the LSE whose submitted RA capacity is affected?

A clear dividing line must exist to make the tags fungible. Neither purchase of an SCP Tag, nor submission of that SCP Tag in satisfaction of the LSE's RA obligations, creates any obligation on the part of the LSE, to the CAISO or any other entity, for the performance of the RA Resource that initially sold the SCP Tag.

Obligations of RA Capacity

3. What is required of the RA capacity or supplier within the delivery period? In particular, what modifications to the existing RA-MOO are needed? Do parties agree that RA capacity must be available to provide Ancillary Services to the extent they are certified? What other obligations need to be specified in the RA-MOO?

Section 40.6 of the MRTU tariff sets forth the availability obligations of RA Resources. Any modification to these availability obligations is beyond the scope of this stakeholder process. The purpose of this stakeholder process is not to modify what is required of RA Capacity. Rather, the more limited purpose of this stakeholder process is to develop a standardized means for transferring, from entity to entity, the right to count RA Capacity, associated with a particular RA Resource, in an LSE's resource adequacy plans or compliance filings.

With respect to planned outages, the supplier of RA Capacity must have put in place enough RA Capacity to offset the temporary reduction associated with the supplier's planned outage. The CAISO should condition any approval of a planned outage of an RA Resource backing an SCP Tag on the supplier's demonstration that it has provided for the requisite "replacement" RA Capacity.

4. How standard is standard? How does a "standard" product deal with details like Local Capacity Requirements (LCR)? Use limitations? Non-standard generation, such as demand response or pumped storage hydro? Are there other flavors of the SCP that need to be defined?

The purpose of the “SCP Tag” is to make it easier to transfer, from entity to entity, the right to count the RA Capacity associated with the SCP Tag in an LSE’s resource adequacy plans or compliance filings. The “standard capacity” is the RA Capacity, as defined in the CAISO’s MRTU Tariff. No further definition of “standard capacity” is necessary or appropriate since the RA Capacity associated with an SCP Tag is already reflected on the CAISO’s NQC Report for a particular RA Compliance year. Nothing further is needed to describe the “standard capacity” associated with the Tag.

Section 40.6 of the MRTU Tariff sets forth the availability obligations of all types of RA Resources. Any modification to these availability obligations is beyond the scope of this stakeholder process.

The SCP Tag should include whether the associated RA Resource is located within an identified Local Capacity Area. This “flavoring” of RA Capacity is already reflected in the MRTU Tariff.

Facilitating Procurement, Registration & Compliance Showings

5. Stakeholders have suggested that the scope should include a bulletin board to facilitate transactions.
 - a. What do parties envision as the scope and functionality of such a bulletin board?

A bulletin board (BB) could enhance the existing bilateral RA market by facilitating purchases and sales. Alternatively, it could potentially be scaled into an auction-style platform under a centralized capacity market, if one were to be adopted.

- b. Is this element essential to getting the SCP up and running? Could the SCP function without it? Can this element be deferred until a later time? Could it be developed by a third party?

A BB is not an essential element of an SCP and therefore can be deferred until after a SCP has been developed. Certainly, a bb could be developed by an external third party that has expertise in energy related platforms. It should be noted that development of an electronic BB was discussed at one point in the CPUC’s Resource Adequacy proceeding (R. 05-12-013). In fact, a representative of APX (a software platform vendor) gave a presentation at a workshop on March 27, 2006.

6. What is the preferred vehicle for transferring capacity tags between parties?
 - a. Should a confirmation letter be used to procure RA capacity? If so, what should be the form and standard content of such confirmation letter?

Yes, an SCP Tag is appropriately conveyed from a seller to a buyer through a confirmation letter or a document spelling out relevant commercial terms and obligations. While SCE’s confirmation letter was proposed as one possibility, PG&E believes the form and the content of such a confirmation letter should be addressed as part of the CAISO’s stakeholder process. PG&E does not have a specific form to recommend at this time.

- b. If not, what is the preferred vehicle for transferring SCP tags between parties?

PG&E believes the preferred vehicle for transferring SCP Tags between parties is a confirmation letter.

- c. Is this element crucial for the initial filing

Some means for ensuring that both the buyer and seller understand they are transferring an SCP Tag, and that the CAISO agrees that there has been a transfer of the SCP Tag, is necessary.

7. Is an electronic RA Registry essential to the SCP effort, particularly if it may impact the ability to make a FERC filing in early 2009? Could the RA Registry be developed in a later phase?

While tracking of capacity tags via a RA Registry is optimal, it's not an essential element for developing a standardized means for transferring the right to count RA Capacity in an LSE's resource adequacy plan or compliance filings. Therefore, an electronic RA Registry could be developed in a second phase of this stakeholder process. The existing system of LSE compliance filings matched against supplier plans, incorporating the use of SCP Tags, could continue until an RA Registry is developed.

- a. What systems or infrastructure are needed or desirable to (1) facilitate trading (2) track ownership (3) enable registration of SCP tags? How can we meet such needs by a relatively simple interim approach for the near term, to be developed later into an end-state approach?

PG&E does not have a position on the specific system or infrastructure that is needed for facilitating trading, tracking ownership, or enabling registration of SCP Tags. However, it may be possible and desirable to have an integrated system that incorporates a bulletin board, RA registry, and other functionalities (e.g., compliance) to meet the needs of all parties involved (suppliers, LSEs, Scheduling Coordinators, CAISO, CPUC, etc.).

- b. Is there a reason why an RA Registry is essential to prevent double-counting of RA capacity? The CAISO and CPUC have been validating RA capacity for several years now to ensure that no double counting occurs. Is the current system sufficient?

No. An RA Registry is not essential to prevent double counting, as the current process of matching compliance filings against supplier plans is intended to identify double counting. Nevertheless, as indicated in the question, validating RA capacity involves effort on the part of the CAISO and the CPUC. While the current system is sufficient in PG&E's point of view, an RA Registry could facilitate validation. Potentially, such validation could be handled automatically by the Registry thereby reducing the oversight effort required by the CPUC and the CAISO.

8. What is required of the RA capacity or supplier prior to the delivery period? For example, should the CAISO assume continued use of current procedures such as submission of supply plans, or should alternatives or enhancements be considered within the scope of the SCP? If an RA Registry is created, does it need to include a level of sophistication that would allow the elimination of year-ahead and month-ahead showings and supply plans? Is this aspect of the RA Registry essential? There also is the reality that the CAISO requires supply plans from its SCs because it is the SCs with whom it has a contractual relationship; not the LSEs. RA resource data is currently validated through the supply plans and it is the supply plan information on RA capacity that is entered into and used in the CAISO operating systems. Also, will the CPUC be interested in departing from the current RA convention of year-ahead and month-ahead showings submitted directly to it by its jurisdictional entities? In essence, is it realistic to expect that an electronic mechanism can replace the current system of showings (both RA showings and supply plans)?

Until a system (i.e., RA Registry) is developed, compliance submissions by LSEs and supply plans by scheduling coordinators / generators would probably need to continue. It's PG&E's belief that if effort is devoted to developing a Registry, it would make sense to incorporate other functionalities that support transferability (i.e., bulletin board) and compliance mechanisms among other features. With respect to the elimination of year-ahead and month-ahead filings, PG&E believes that ultimately a Registry might be able to eliminate the separate need for these filings. While PG&E can't speak on behalf of the CPUC, it's our observation that the Energy Division devotes a significant effort to compliance monitoring and therefore might be amenable to a streamlined compliance process that could include elimination of periodic filings.

With respect to planned outages, the supplier of RA Capacity must have put in place enough RA Capacity to offset the temporary reduction associated with the supplier's planned outage. The CAISO should condition any approval of a planned outage of an RA Resource backing an SCP Tag on the supplier's demonstration that it has provided for the requisite "replacement" RA Capacity.

Performance Standards for RA Capacity

9. Do all stakeholders agree that all obligations for performance should be on the supplier? Are there certain circumstances where the LSE should be required to take some action, particularly if there is a long lead time in which to act?

Neither purchase of an SCP Tag, nor submission of that SCP Tag in satisfaction of an LSE's RA plan or compliance filings, creates any obligation on the part of the LSE, to the CAISO or any other entity, for the performance of the RA Resource that initially sold the SCP Tag. In particular, the amount of capacity that the LSE can count toward its RA obligations should not be reduced during the course of a RA Compliance Year.

10. What challenges are posed by use-limited resources and demand response resources? What metrics will allow fair and reasonable treatment of these and all other types of resources?

No challenges are posed by use-limited and demand response resources in supporting SCP Tags. SCP Tags represent the right to count the associated RA Capacity toward an LSE's RA obligations. To the extent that use-limited and demand response resources can be used as RA Capacity, they can be used to underlie SCP Tags. The MRTU Tariff already describes the way in which these, and all other resource types, can be used as RA Resources. With respect to CPUC jurisdictional entities the Tariff references the CPUC determinations.

Any modification to how use-limited, demand response, or any other type of resource is counted to meet an LSE's RA obligations is beyond the scope of this stakeholder process, the purpose of which is to develop a standardized means for transferring the right to count RA Capacity in an LSE's RA plan or compliance filings.

11. How shall an outage be defined for purposes of calculating availability metrics? What is an acceptable forced outage rate? Should it vary by technology type?

With respect to forced outages, any change to how resources are counted for RA purposes is beyond the scope of this stakeholder process.

12. Should availability factors be broken out and standards developed for specific classes of resources to reflect their unique operating characteristics, i.e., combustion turbine, hydroelectric, demand response, wind, solar?

Changes to how resources are counted for RA purposes are beyond the scope of this stakeholder process.

13. What are the criteria which would trigger procurement of replacement capacity to replace RA capacity that does not or cannot perform sufficiently, as opposed to relying on the margin built into Planning Reserve Margin-based (PRM) RA requirements?

RA Capacity associated with an SCP Tag would not be reduced during the course of a RA Compliance Year. Any other approach would make it impossible for the buyer of an SCP Tag to know what it was buying. Therefore, there would be no trigger for requiring an LSE to replace poorly performing RA Capacity covered by one of the LSE's SCP Tags during the course of a RA Compliance Year.

It is possible that the CAISO might determine that it must obtain capacity under other provisions of the MRTU Tariff due to the poor compliance of a RA Resource with the RA availability provisions of the MRTU Tariff. That determination is covered by the remaining provisions of the MRTU Tariff, not the RA provisions.

- a. Should the “forced is forced” principle be continued as is, or is some modification needed in conjunction with the SCP proposal?

No modification to the “forced is forced” principle should be made as a part of this stakeholder process. Reconsideration of this principle, if at all, belongs in the CPUC’s RA forum.

- b. How should costs of replacement capacity be allocated?

To the extent that the CAISO determines that it must obtain capacity under other provisions of the MRTU Tariff due to the poor compliance of a RA Resource with the RA availability provisions of the MRTU Tariff, the cost of that procurement should be as provided in the appropriate provisions of the MRTU Tariff. Those costs should be offset by any penalties levied against a RA Resource for failure to meet its RA obligations.

14. When, if ever, should insufficient performance by RA capacity have an impact on the LSE that submitted the capacity to meet its RA requirements? For example, in the context of the current monthly RA model, suppose an RA resource is suddenly forced out and will be out for three months of its contracted delivery period. Should the LSE that submitted that resource be required to obtain replacement capacity by the next monthly showing?

RA Capacity associated with an SCP Tag would not be reduced during the course of a RA Compliance Year. Any other approach would make it impossible for the buyer of an SCP Tag to know what it was buying. Therefore, there would be no trigger for requiring an LSE to replace poorly performing RA Capacity covered by one of the LSE’s SCP Tags during the course of a RA Compliance Year.

Penalties & Other Corrective Actions

15. What are the different functions and incentive effects of financial penalties vs. adjustments to NQC?

Adjustments to NQC should reflect a resource’s historic forced outage rate. “Performance penalties” should be tied to the cost of replacing the RA capacity and should be attributed to the supplier.

16. To what degree and under what circumstances should the adjustment of NQC of a resource occur?

RA Capacity associated with an SCP Tag would not be reduced during the course of a RA Compliance Year. Any other approach would make it impossible for the buyer of an SCP Tag to know what it was buying. Beyond that, any changes to the currently adopted approach for adjusting a generator’s NQC are beyond the scope of this stakeholder process.

17. How might seasonal penalty rates be applied to ensure a very high incentive for resources to perform in high demand periods?

Penalty rates should be tied to the cost of replacing the RA capacity. Such costs would presumably vary by season thereby capturing incentives for availability.

Credit Requirements

18. What credit requirements should apply to RA suppliers vs. Scheduling Coordinators for RA capacity?

PG&E has not developed a recommended set of credit requirements associated with RA Resources' obligations to the CAISO in connection with SCP Tags.

19. What is correct method for calculating the optimal credit requirement?

See response to question 18.

20. Should the credit requirement required for the SCP stand alone or should the liability associated with this product be netted against the overall Accounts Receivable/Accounts Payable (AR/AP) of the SC associated with the RA supplier?

See response to question 18.

Implementation Details

21. Given that an early 2009 tariff filing with FERC is the working target to enable parties to begin RA capacity negotiations based on the SCP as early as possible, what elements of the SCP must be in place to meet both the commercial and the reliability objectives of the SCP by the desired target?
- Which elements are crucial for the initial filing?
 - What additional elements can be resolved in time for an early 2009 FERC filing?
 - Which elements can wait for a subsequent FERC filing?
 - Should this be a staged or phased implementation with planned enhancements in future filings?

PG&E believes that the time between now and Jan/Feb 2009 should be spent discussing the specific characteristics of the SCP Tag. All issues that do not deal with the product itself, but rather, with changes to NQC and RA should wait for future FERC filings.

Also, PG&E believes that immediate development of a bulletin board and a RA Registry is not essential to the development of the SCP Tag, but that development of a bulletin board and a RA Registry should be pursued in a second phase of this stakeholder process.

22. Assuming the SCP proposal is filed and approved by FERC in spring 2009, should the SCP take effect immediately for use in the monthly RA showings for the remainder of 2009, or only come into play for RA capacity procured for delivery in 2010?

Because there will be a significant change in the process by which RA Capacity is accounted for in LSEs' RA plans or compliance filings, a transition period is needed to give market participants time to prepare. Thus, the SCP should come into play for RA capacity procured for delivery in 2010.

23. The CAISO understands that the end-state vision for the SCP is that it will apply to 100% of the capacity procured to meet RA requirements. Can the SCP definition be applied to 100% of RA Capacity from the start? Is there a need for a transition period to a full implementation of SCP (i.e., short-term "grandfathering" of some existing RA capacity)?

At this time, PG&E does not have a position on whether the desired end-state is that the SCP will apply to 100% of the capacity procured to meet RA requirement.

- a. If a transition period is needed what is the rationale for it and how should it be defined?

At a minimum, a transition period is needed to reflect existing contracts and all other RA eligible capacity (e.g., imports and DWR contracts) until the contracts terminate or SCP Tags are developed for each particular RA resource.

- b. What criteria should be used to define categories of RA resources eligible for grandfathering during the transition period? What shares of RA capacity do these categories represent, and what are the practical implications – e.g., any relaxation of performance obligations, reduction in tradability, impacts on existing supply contracts – of allowing them to be grandfathered?

PG&E understands the term "grandfathering" here to mean the use by an LSE of capacity not associated with an SCP Tag in the LSE's RA plan. At this time, it would be premature to prohibit use of any means currently allowed for an LSE to satisfy its RA obligations. In other words, there should be no requirement at this time that an LSE satisfy any portion of its RA requirements using an SCP Tag.

24. What change management provisions need to be incorporated into the SCP proposal? Besides specifying the provisions for a transition period, if one is determined to be needed, what other change management scenarios must be considered?

All contracts that are currently allowed to count toward meeting an LSE's RA requirements, but that do not meet the SCP Tag requirements should be grandfathered. Other than that, there are no further suggestions at this time.

25. Assignment of SCP tags to eligible RA Capacity
- a. Should the SCP simply take the existing counting rules and NQC determination process as given, or are there issues with these existing features of the RA process that need to be addressed in conjunction with the SCP? For example, if different flavors of the SCP have different performance requirements, how can we ensure that simply adding up the pre-determined quantity of SCP tags will result in achieving the desired level of overall system reliability?

Given that counting rules have already been established in separate RA proceedings, there is no need to revisit as a part of this stakeholder process. Therefore, this stakeholder process should take the existing counting rules and NQC determination process as given. The only qualification to this is that NQC determinations for existing resources should not be modified in the middle of any RA Compliance Year. This requirement is necessary in order to ensure that a purchaser of an SCP Tag knows the amount of RA Capacity it's entitled to count toward its RA requirements.

The SCP Tag should include whether the associated RA Resource is located within an identified Local Capacity Area. This "flavoring" of RA Capacity is already reflected in the MRTU Tariff.

- b. Are there other factors besides the counting rules, testing of maximum operating capacity, deliverability assessment, and performance criteria that should figure in the calculation of a resource's MW tag quantity? If so please describe.

These factors are consistent with the current ISO tariff. PG&E does not suggest including any additional factors beyond what is already established as a part of this stakeholder process.

- c. Can we equate the quantity of tags for a resource to its NQC, or is there a need to maintain a distinction between these two terms?

Yes. The MW of SCP Tags that a RA Resource should be able to sell for any given time period should be equal to its NQC for that time period.

- d. What is the duration of a tag? Are tags issued anew each year with a one-year term? Or are tags permanent once they are acquired by a resource? If the latter, must a resource that retires or has its NQC reduced in a subsequent year buy back all or some of its outstanding tags? Can NQC be reduced within a given delivery year based on supplier performance?

A RA Resource can sell an SCP Tag for any length of time. For any portion of a RA Compliance Year covered by a Tag, the RA Resource selling the SCP Tag is obligated to have sufficient NQC associated with the RA Resource listed on the NQC Report for that RA Compliance Year, and to have its SC report it in the Resource's annual and monthly supply plans in an amount equal to the SCP Tags it has sold.

The mere fact that a RA Resource sells an SCP Tag for some portion of an RA Compliance Year does not entitle the RA Resource to be listed in the NQC Report for that Compliance Year. The fact that an RA Resource sells an SCP Tag for some portion of a Compliance year obligates the RA Resource to be on the NQC Report for the Compliance Year and to have its SC report it in the Resource's annual and monthly supply plans in an amount equal to the SCP Tags it has sold. That obligation means, in particular, that the RA Resource must meet the CAISO's Tariff requirement for being placed in the Report. With respect to CPUC jurisdictional entities the Tariff references the CPUC determinations.

As described above, an RA Resource's NQC cannot be reduced in the middle of a Compliance Year. However, it's possible that an RA Resource might meet the Tariff requirements to be in the NQC Report for one Compliance Year, but not meet the Tariff requirements to be in the NQC Report for a following year. If the RA Resource fails to meet the requirements to be in the NQC Report for a given Compliance Year, but has sold an SCP Tag for that Compliance Year, the RA Resource is in breach of its obligations to the current holder of the SCP Tag. The same is true if the RA Resource's NQC is reduced, so that the Resource's NQC listed on the NQC Report for a Compliance Year is less than the amount of SCP Tags sold by the Resource for that Compliance Year.

By selling an SCP Tag for a portion of its listed NQC for a given month, the generator obligates itself to the CAISO to be a RA Resource supplying RA Capacity for that portion of its NQC for that month and to have the SC for the RA Resource report it, as appropriate, in the Resource's annual and monthly supply plans. Once the monthly supply plan is submitted for a given month, the RA Resource is committed to the availability requirements of the MRTU Tariff for RA Resources for that month. Prior to the submittal of a monthly supply plan, if an RA Resource buys back its SCP Tag for that month, then it is no longer under any obligation to anyone to be identified as an RA Resource for that month.

- e. How are tags assigned to new capacity investment prior to construction or commercial operation?*

Assignment of tags should be consistent with the standards set forth in the RA forum with respect to the counting of new resources relative to the commercial operation date.

Other Comments:

PG&E is pleased to have been given the opportunity to respond to the above questions. In addition, we would like to present high level observations and related recommendations to better inform stakeholders. These are discussed below.

Scoping and Phasing: PG&E fully supports the implementation of SCP Tags (in order to make it easier to transfer, from entity to entity, the right to count the RA Capacity associated with the SCP Tag in an LSE's resource adequacy plans) in the timetable set forth by the CAISO (2010). In order to achieve this ambitious schedule, the process needs to be appropriately scoped to focus on essential elements. With respect to scoping, only SCP issues should be considered. Topics related to counting conventions, outages and other Resource Adequacy policy matters should be addressed in the RA forum rather than in this stakeholder process. The only exception to this should be to forbid an RA Resource's NQC from being changed during the middle of the year. This is essential to the effectiveness of SCP Tags.

With respect to phasing, the project could be phased into two parts. Phase 1 would represent mandatory topics needed for resolution by spring 2009 while Phase 2 would contain optional, longer dated initiatives that support the SCP. Phase 2 topics include the development of a bulletin board, registry and other support mechanisms.

Compatibility with Markets: The ultimate market structure for capacity is unknown at this time. The CPUC is in the process of determining if the current bilateral market structure should be supplanted by a centralized market or some hybrid combination thereof. Because of this uncertainty it's crucial that whatever SCP Tag is developed does not favor one market structure over another. PG&E believes that the SCP Tags as described in these comments meet this requirement.