

Powerex Comments on CAISO’s Flexible Resource Adequacy Criteria and Must-Offer Obligation – Draft Final Proposal

Submitted by	Company	Date Submitted
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Powerex herein provides comments on the February 7, 2014 Draft Final Proposal on the CAISO’s Flexible Resource Adequacy Criteria and Must-Offer Obligation (“FRACMOO”). Powerex last submitted comments on February 3, 2014 on the CAISO’s Fifth Revised Straw Proposal. Those comments sought various changes to the proposal including: 1) revision of the proposal to more broadly permit resources at the interties to provide flexible resource adequacy supply; 2) the allocation of costs of procuring flexible resources consistent with cost causation principles, rather than the assignment of all costs to LSEs as proposed; and 3) improvements to the proposal to avoid free ridership concerns. As indicated in the February 13, 2014 FRACMOO presentation made by Dr. Meeusen, and as evidenced by the provisions of the Draft Final Proposal, none of these suggested improvements have been adopted or materially addressed.

While Powerex greatly appreciates that CAISO’s ongoing efforts to ensure comprehensive stakeholder processes, including providing a forum for interested market participants to comment, CAISO’s responsiveness to stakeholder comments with regard to FRACMOO has not been particularly robust. Consistent with CAISO’s responsiveness in other stakeholder processes, Powerex would have liked to see a stakeholder comment matrix with CAISO’s responses to the Fifth Revised Straw Proposal, prior to the posting of a Draft Final Proposal and before the due date for comments thereon. But more importantly, Powerex would like CAISO’s *reasoned* response to major stakeholder concerns, such as those associated with CAISO’s proposal to preclude participants at the interties from providing flexible resource adequacy.

Excluding 15-minute resources at the interties from providing flexible resource adequacy discriminates against resources at the interties. This significant concern was expressed by multiple stakeholders. Yet CAISO’s response was tantamount to “we just don’t want to at this time”. Powerex understands and respects the CAISO’s desire to contain the scope of this initiative. However, this is simply not an appropriate response for an ISO to provide in response to legitimate concerns of this magnitude and gravity. Specifically what CAISO stated was:

The ISO's FERC Order 764 market design changes will provide for 15-minute dispatch on the interties. While the ISO agrees 15-minute dispatchable resources can provide flexibility, it believes it is best to examine these resource's potential to provide flexible capacity after the experience is gained under the FERC Order 764 changes that are scheduled to be first implemented this upcoming April.¹

CAISO's unilateral and unexplained conclusion as to "what is best" is not a sufficient response to overcome the serious concerns stakeholders have raised that the proposal, *inter alia*, will unduly discriminate against market participants at the interties, will limit competitive supply options of flexible resource adequacy by precluding sales from resources with better reliability and ability to supply such resources than many of those that will qualify to participate, will inefficiently lead to the implementation of a higher cost solution to acquiring flexible resource adequacy and accordingly is unjust and unreasonable to implement. This is especially troubling since "ISO agrees 15-minute dispatchable resources can provide flexibility" and has provided absolutely no analysis or legitimate basis for precluding the ability of a resource that can provide the service from doing so based on its artificial restriction to resources that can be dispatched in five minute increments.

Resources that can respond to fifteen minute instructions can just as effectively provide a solution to a ramping challenge that is measured in three hour blocks of time as those that can respond to five minute instructions. CAISO has not denied, and it is undeniable, that a large portion of the CAISO's ramping needs can be reliably and efficiently met with 15-minute dispatchable resources. Similarly, it is undeniable that CAISO has been relying on purchases on the interties, including both dynamic *and hourly* purchases to meet its ramping needs, on a long-standing basis. CAISO's decision to permit internal resources that can be dispatched as infrequently as five times a month to provide flexible ramping service at the same time that it would preclude flexible 15-minute resources at the interties with far greater availability from providing, and receiving compensation for, this service highlights the discriminatory nature of CAISO's proposal.

Finally, CAISO's proposal to exclude intertie participation in FRACMOO is all the more inexplicable when reviewed in juxtaposition to its ongoing effort to implement an Energy Imbalance Market ("EIM"). Through the EIM vehicle, CAISO recognizes the benefits that co-optimized dispatch and supplies of external resources can bring to bear to improve reliability and efficiently serve demand. More particularly, CAISO has made it clear it desires access to the flexibility provided by resources outside of its footprint, through its EIM and Order 764 initiatives. Yet with FRACMOO, CAISO wishes to preclude the vast majority of non-CAISO resources from participating in the sale and commitment of such flexibility on a forward basis, despite conceding that such resources can provide the flexibility service. CAISO cannot have it both ways: pursuant to long-standing and well-settled FERC precedents, when resources outside a state can

¹ See Stakeholder Comment Matrix on FRACMOO Fourth Revised Straw Proposal at p. 33.

provide a product, they must be permitted to provide the product on a non-discriminatory basis. Powerex strongly urges CAISO to reconsider this artificial restriction and avoid pursuing a proposal that creates a perception that the CAISO is broadly pursuing access to external resource flexibility, yet denying such resources full participation in the compensation mechanisms for providing such services. As to the need to implement changes to ensure that cost allocation will be consistent with cost causation principles and improvements to avoid free ridership concerns, Powerex refers CAISO to its comments on the Fifth Revised Straw Proposal, and requests that CAISO provide written responses to these and other stakeholder comments.