

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.

AReM Introductory Statement

AReM is pleased that the CAISO has initiated its stakeholder process to define the tariff amendments needed to facilitate the development of a Standard Capacity Product (SCP) to be used by load-serving entities (LSEs) to meet their Resource Adequacy (RA) requirements. AReM's primary objective is to ensure a FERC filing by the CAISO no later than February, 2009, which will allow a FERC order in time to develop and use the SCP for 2010 compliance, as well as for monthly compliance during part of 2009. To accomplish this objective, and in recognition of the CPUC's continuing consideration of modifications to its RA requirements, including the possible approval of a centralized capacity market, AReM urges the CAISO to

address and resolve **only those issues absolutely essential for the development of the SCP based on existing CPUC requirements.** In fact, the CAISO's SCP stakeholder process should assume no changes to the current CPUC RA program. Moreover, AReM concurs with statements made by stakeholders on the 9/3/08 conference call that the two primary issues requiring resolution are:

1. Availability requirements and
2. Penalties.

AReM urges the CAISO to focus on resolving these two issues for the February filing. In support, AReM submits a detailed phasing proposal at the end of this template (Attachment A).

Further, AReM is concerned that some of the issues identified and the accompanying discussion in the CAISO's issue paper seem to imply that the SCP is a CAISO-imposed requirement on Scheduling Coordinators. In fact, the SCP is a product that the market develops commercially, as a result of the CAISO clarifying supplier obligations in its tariff. Accordingly, the CAISO is not *developing* the product, but *facilitating* the development of the product by the market. This distinction is helpful to keep in mind when discussing the scope of the CAISO's SCP stakeholder process.

SCP Overview

1. 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?

In general, we agree that this slide describes the RA Process at a high level. However, as indicated below, we do not agree that the CAISO should be reviewing or evaluating the regulatory requirements of the CPUC or any other Local Regulatory Authority (LRA) as part of its SCP stakeholder process. In particular, the regulatory requirements referred to on Slide 8 regarding submitting "tags" are clearly outside the scope of the CAISO's process.

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?

The LSE's responsibility ends with its submission of SCP tags to meet its RA requirements. We envision no circumstances where a supplier's failure to deliver requires some action on the part of the LSE.

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?

The proposed February SCP filing should be based on the existing RA-MOO. Any changes to the RA-MOO must be considered and resolved separately in the RA proceedings at the CPUC.

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 proposed February SCP filing should be based on the existing RA requirements and RA counting rules established by the CPUC. Any changes to these requirements and rules must be considered and resolved separately in the RA proceedings at the CPUC. Accordingly, the two “flavors” of capacity allowable under current rules are “Local” and “System.” Further, each RA resource must be identified as a Category 1, 2, 3 or 4 resource to meet the CPUC’s requirements for Maximum Cumulative Contribution (MCC). Accordingly, all RA resources have: (1) an NQC; (2) a designation as “System” or “Local”; and (3) an MCC designation. Only these “flavors” exist in the current CPUC RA program. These characteristics would be included for each RA unit in the CAISO’s NQC posting and would be listed on the SCP tags for each unit. The CPUC has already adopted separate provisions for use-limited resources that are incorporated into the NQC calculation. Such requirements do not affect the fact that a MW of SCP is still a MW of RAR, even if “use-limited.” Also, any changes to this approach would have to be determined by the CPUC in an RA proceeding. In addition, requirements for integrating Demand Response resources into MRTU and associated counting rules are currently being considered in CPUC proceedings and are completely separate from and outside the scope of the CAISO’s SCP process.

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?

This should be deferred until a later phase.

- 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?

This element should be deferred to a later phase. AReM notes that it may be preferable to have any desired bulletin board be established commercially by a private party, if possible.

6. What is the preferred vehicle for transferring capacity tags between parties?

These are commercial issues that are outside of the scope of the CAISO's SCP process.

- 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?

Confirmation letters are commercial arrangements that are outside of the scope of the CAISO's SCP process.

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

These are commercial arrangements that are outside of the scope of the CAISO's SCP process.

- c. Is this element crucial for the initial filing

No.

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?

This element should be deferred to a later phase.

- 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?

No need to discuss at this time.

- 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?

There is no need for an RA Registry at this time and it is not needed to "prevent double-counting." The current CPUC RA requirements, coupled with the CAISO's requirement for submission of a "Supply Plan" by RA units, addresses this concern.

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)?

The CAISO should assume that the current CPUC RA program and CAISO procedures continue.

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?

AReM agrees that all obligations for performance rest with the supplier. There are no circumstances where an LSE would be required to take action.

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?

The CAISO must assume that the current rules for use-limited resources remain unchanged. Also, rules for Demand Response resources are currently under consideration at the CPUC. Any change to these rules must be addressed in a CPUC proceeding, including “metrics” or “fair and reasonable” treatment. Changes to the rules for use-limited resources and demand response will not affect the SCP tags.

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?

The CAISO must assume that the current RA counting rules remain unchanged. Any change to these rules must be addressed in a CPUC proceeding.

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?

AReM believes that “availability” is one of two primary issues that must be addressed in the CAISO’s SCP process. However, “availability” is separate and distinct from the RA counting rules and requirements, which take into account technology differences, as mentioned above. In fact, AReM believes that use-limited resources and demand response have “availability” already accounted for in their NQCs and should not be subject to an additional availability requirement imposed in the CAISO’s tariff. Accordingly, any additional availability requirement and associated penalties would only apply to resources other than use-limited and demand response. AReM believes that a single standard should be developed that applies uniformly to all resources subject to the availability requirement. The CAISO’s 8/27/08 issue paper describes several availability proposals that have been submitted to date and discussions should initially focus on those proposals.

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?

The CAISO should assume that the existing RA rules and requirements established by the CPUC continue. The Planning Reserve Margin is a separate issue outside the scope of the CAISO's SCP process.

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

The CAISO should assume that the existing RA rules and requirements established by the CPUC continue.

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

This issue is outside of the scope of the SCP.

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?

As noted above, all obligations for performance rest with the supplier and not with the LSE.

Penalties & Other Corrective Actions

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

AReM has no comment at this time, but looks forward to working with other stakeholders on this issue.

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

AReM has no comment at this time, but looks forward to working with other stakeholders on this issue.

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

AReM has no comment at this time, but looks forward to working with other stakeholders on this issue.

Credit Requirements

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

AReM believes that the MRTU tariff amendments needed to facilitate the development of the SCP does not create any additional credit requirements for RA Suppliers or Scheduling Coordinators. In particular, AReM does not understand how the potential application of a penalty would create additional credit requirements.

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

Not applicable. See answer to #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?

Not applicable. See answer to #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?

The CAISO's SCP tariff changes should be based solely on current RA requirements and rules. All other issues or changes should be deferred. Please see AReM's proposed phasing plan attached to this template.

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?

Yes. The tariff amendments should take effect immediately and the resulting SCP developed commercially should be an available option for use by the LSEs in their monthly RA showings for the remainder of 2009.

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)?

The CAISO seems to be viewing SCP as a regulation to impose on LSEs. AReM views it quite differently -- as a product that develops commercially once the CAISO makes the necessary tariff amendments to clarify supplier obligations. With this view, the “SCP” is what is commercially transacted through “confirms.” Consequently, the SCP confirm looks very much like today’s bilateral RA contracts, but is more standardized and easily tradable. Further, it can be used, as an option, to meet the LSE’s RA requirements. So, AReM sees no need for a “transition period” nor to require that 100% of an LSE’s RA Requirements be met through SCP tags. However, because the SCP tariff modifications will include an availability requirement and associated penalties for RA resources, there may be a need for “grandfathering” some existing bilateral RA contracts. AReM is open to discussing this further in the stakeholder process.

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

See above answer.

- 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?

The only “criteria” to determine “eligibility” for grandfathering would be the existence of a previously signed bilateral contract for RA capacity that has a term beyond the RA showing date and includes differing availability and penalty arrangements.

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?

Similar to any other CAISO tariff change, the CAISO should be required to conduct a stakeholder process before making any tariff changes or changes to its BPM regarding the RA-MOO. Further, the CAISO should acknowledge that, under current conditions, any changes to the RA process, RA requirements or RA rules must first be adopted by the CPUC, before being incorporated into the CAISO’s tariff.

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?

As stated above, the CAISO should assume no changes to the existing RA rules, requirements, or process in place at the CPUC.

- 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.

As described above, the CAISO's February tariff changes should only address availability and penalties. Deliverability and testing are already addressed in the tariff and RA counting rules are under the jurisdiction of the CPUC.

- 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, we should equate tags to NQC. 1 MW of NQC = 1 SCP Tag.

- 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?

AReM prefers monthly Tags to provide maximum flexibility for trading.

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

The CPUC's current rules establish when new generators are allowed to count toward meeting an LSE's RA requirements. These same rules should apply to the SCP Tag. Once the generator can "count" for RA purposes, its NQC is known, as is its effective date, its locational characteristics and its MCC category, and the number of SCP Tags (which equals the NQC). The requisite SCP Tags can then be sold by the supplier and used by the LSE (as of the effective date) to meet the LSE's RA requirements. Sales of SCP Tags for units with on-line dates far in the future conflict with the current RA counting rules at the CPUC and are, therefore, outside of the scope of the CAISO's SCP process.

Other Comments:

Attachment A presents AReM's proposal for phasing SCP issues.

ATTACHMENT A

AReM's SUGGESTIONS FOR PHASES IN DEVELOPING THE STANDARD RA CAPACITY PRODUCT

AReM believes that implementing a phased approach is essential to address the fundamental issues quickly and allow for a February 2009 tariff filing. More complex or controversial issues, especially those involving CPUC-jurisdictional issues, would be left for later resolution and a subsequent tariff filing if needed. As described below, AReM proposes two phases. This proposal references the joint filing made by Calpine, AReM and others at the CPUC on November 16, 2007 in R.05-12-013, which AReM believes should be used as the starting point for discussions. AReM would be pleased to discuss this proposal with the CAISO staff or stakeholders at any time.

Phase 1 — Tariff issues to be addressed near-term and included in amendments filed at FERC by no later than February 2009. This represents the minimum MRTU amendments needed to facilitate the development of a Standard RA Capacity Product.

- Definition of “Resource Adequacy Capacity” — This term needs to be defined because it is used in the tariff language and will clarify the suppliers’ obligation. The definition proposed by Calpine *et al* can be used as a starting point.
- Refinements to Net Qualifying Capacity (NQC) -- The NQC Section (MRTU 40.4.2) should be modified to specify that the published list identify for each RA unit: (1) NQC; (2) whether “System” or “Local”; and (3) whether Category 1, 2, 3 or 4 resource for meeting the Maximum Cumulative Contribution Requirements. In addition, testing for NQC should be deferred to Phase 2 (see below). Accordingly, MRTU Section 40.4.4 should be modified to specify that testing rules will be filed at a later date.
- Availability Requirement – The CAISO envisions adding an availability requirement to the current RA-MOO. Calpine *et al* suggested an availability requirement (Section 40.6.1[6]). The CAISO’s 8/27/08 issue paper identified two alternative proposals. Stakeholder discussions should focus on these proposals as a starting point. To the extent the CAISO and stakeholders wish to address generator performance criteria other than availability (see below), these should be deferred to Phase 2. Accordingly, MRTU Section 40.4.5 should be modified to state that any such additional criteria will be developed at a later date.
- Compliance and Penalties, Section 40.7 — Some minor revisions to MRTU Section 40.7 are desirable to ensure that compliance obligations are clearly established and Calpine *et al* proposed associated penalties for its proposed availability requirement in Section 40.7.3. The CAISO should determine its ability to track whether RA resources have met the must offer requirement. If this can be tracked with current MRTU software, the CAISO should clearly state in the tariff the penalty that will apply if the RA resource fails to meet the must offer

requirement. The financial penalty currently specified in Section 37.2.1.2 may be the most appropriate for this violation, but AReM is open to further discussions with stakeholders on this point. A prospective adjustment to the NQC has also been proposed as an alternative to a financial penalty.

- Sanctions, Section 37.2 — The current MRTU tariff language refers to “Sanctions” under Section 37.2 when RA suppliers fail to meet the specified generator obligations. Some clarifications will be necessary to make this section consistent with the compliance provisions adopted for Section 40.7.
- Credit Requirements — The CAISO has raised this as an issue with respect to RA suppliers, but the proposed SCP-related changes should not impose any significant additional credit requirements over what the RA suppliers currently face. In particular, AReM fails to see how the potential, but unlikely, imposition of a penalty would lead to any additional credit requirements. AReM awaits CAISO clarification on this point.

Phase 2 — Issues or product refinements that can be deferred for later resolution.

These represent future improvements related to the Standard RA Capacity Product and may be dependent upon modifications to the RA program that require approval by the CPUC. If resolution of these issues require MRTU tariff amendments, they would be filed at a later time.

- RA Registry — An electronic registry listing RA capacity “tags” and tracking their ownership has been proposed by parties and encouraged by the CPUC (D.05-10-042, p. 18). The registry could be implemented either by the CAISO or through a third party. (See Calpine *et al* Section 40.4.7). Phase 2 could address whether the CAISO should establish the registry or a third-party would be more appropriate.
- RA Bulletin Board — A number of parties have also proposed a bulletin board, which would allow buyers and sellers of RA capacity to find each other. More refined versions could allow trades and provide price transparency. A bulletin board could be implemented by a third party or, possibly, by the CAISO or a California state agency (*e.g.*, the CEC similar to WREGIS or the CPUC). Phase 2 could address whether the CAISO wished to develop the bulletin board.
- Refinements to NQC -- The NQC Section (MRTU 40.4.2) could be refined by adding additional clarifications, such as to: (1) specify the basic process that the CAISO will follow in establishing and modifying the NQC list that is used for RA compliance; (2) expressly state that NQC cannot be reduced (but may be increased) within the compliance year; (3) provide the rules a supplier would follow to change its NQC; (4) link the NQC List with the RA compliance year (see Calpine *et al* proposed amendments, subsections i and ii); and (5) specify that the list will be updated to reflect increases in NQC and new units that come on line during the compliance year.
- Testing of NQC -- In the CPUC’s R.04-04-003 proceeding, the CAISO stated that it would use the CPUC’s counting rules to verify the NQC and that any testing to verify the qualifying capacity could be deferred for the time being. This was approved by the CPUC in D.05-10-042 (pp. 33-34). Accordingly, this issue, as

well as any associated testing protocols, is not essential for a February 2009 filing and should be deferred to Phase 2.

- Deliverability of RA Resources — The CPUC RA program (some of which is incorporated in the MRTU Tariff, Section 40.4.6) already addresses deliverability of the RA resources. To the extent, the CAISO wishes to modify that aspect of the program or use deliverability issues as the basis for a re-determination of NQC, it may require CPUC approval and, therefore, should be addressed in Phase 2.
- Refined Generator Performance Criteria — The CPUC has encouraged the CAISO to adopt generator performance criteria and sanctions (D.05-10-042, p. 18), which could include criteria that extend beyond the availability requirement being addressed in Phase 1. Also, some proposed generator performance criteria may require changes to the CPUC RA program (*e.g.*, any revision to the “Forced is Forced” policy). Therefore, such issues are better addressed in Phase 2 and after the CPUC adopts any such changes to its RA program.