Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Fourth Revised Straw Proposal, Posted November 7, 2013

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the Flexible Resource Adequacy Criteria and Must-Offer Obligation fourth revised straw proposal on November 7, 2013, and issues discussed during the stakeholder meeting on November 13, 2013.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to fcp@caiso.com no later than the close of business on November 27, 2013.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. As detailed in the fourth revised straw proposal[1] and at the 11/13 stakeholder meeting PG&E has put forward an alternative allocation methodology. Please provide comments for each of these proposals, particularly as they relate to cost causation. If your organization has a preference for one over the other, please state your preference and why.

2. The ISO believes that demand response resources should have the opportunity to provide flexible capacity. The ISO has proposed how demand response resources could do so. Please provide comments on the ISO's proposal. Specifically, please identify concerns with the ISO's proposal and offer potential solutions to these concerns. Additionally, please comment on the proper forum (ISO, CPUC, etc.) where these concerns should be addressed.

[1] PG&E's specific proposal can be found at http://www.caiso.com/Documents/PG_E-Comments-FlexibleResourceAdequacyCriteriaMustOfferObligation-ThirdRevisedStrawProposal.pdf.

3. Please provide comments and recommendations (including requested clarifications) regarding the ISO's proposed must-offer obligations for the following resources types:

    a. Dispatchable gas-fired use-limited resources

        1. Please provide comments regarding the ISO's proposal that would allow resources with use- limitations to include the opportunity costs in the resource's default energy bid, start-up cost, and minimum load cost.

The ISO's proposal to calculate an opportunity cost component and add it to a variable cost to establish a new bid cap for MLCC is overly complex and will likely not result in an optimized "dispatchable gas-fired use-limited resource" ("peaker") dispatch matching the monthly or annual permit limitations with the optimal hours in which the unit should have been dispatched.

We recommend that the ISO continue to utilize its present market controls, including the 150% cap on start-up and MLCC and the existing energy bid cap, and allow market participants which manage peaker fleets to continue to manage those fleets to their daily, monthly, annual or rolling 12-month permit limitations. The ISO may have underestimated the complexity of managing these units, and it is unlikely that the ISO has the resources or the time to sufficiently optimize these resources.

The opportunity cost calculations proposed by the ISO calculate a marginal opportunity cost based on a applicable time period. However this is very complicated, when optimized across monthly and then annual limitations. Further, and unclear in the proposal but implied, the ISO would need to optimize across the hours of operation expected for that particular peaker, given its heat rate and permit limitations. This results in essentially individual calculations of opportunity costs for each peaker in the ISO BAA. Again, the ISO should consider that there is an inherent incentive for the market participant to bid economically. In fact, a peaker resource has a strong incentive to keep competitive bids in place as the majority of its fixed cost recovery will come from only a very few hours during a year, with disastrous financial results if the unit is not available or the ISO ADS fails to dispatch the unit. The ISO has the ability to moniter the functioning of markets and bidding practices, and can revisit both the bid structure as well as bidding behaviors which it believes to be improper. Further, the ISO has required market participants with peakers to submit annual operational plans, and has this data to compare and ensure that units are being operated according to plans.

The ISO has introduced two concepts, "legitimate costs" and "economic withholding" in its whitepaper. Page 39; 2nd Paragraph: The ISO states: "…in order to provide an estimate of legitimate costs to include in the resource's bid." Page 38; 7.1.2.3 "Economic Withholding" - The ISO has introduced a concept called "economic

withholding", and defined this as "when a resource artificially increases its bid price above variable costs to avoid being dispatched for the purpose of forcing the market to dispatch higher-priced bids and establish a higher market clearing price to benefit the remainder of that supplier's portfolio that was dispatched by the market." In fact, FERC and the DMM have the authority and have investigated cases when a market participant intentionally withholds or manipulates the market. Thus, controls are in place. It would be helpful for the ISO to either remove these concepts from its whitepaper or clarify that bidding a peaker to manage and optimize its output to its permitted hours of operation is not either economic withholding or an illegitimate cost (bid).

Finally, it would appear that the bucket methodology as being discussed at the CPUC would match resources to an expected number of hours of operation, and that LSE's could then procure resources in various buckets to match up to the needs of the grid. Thus, the concept that a market participant registers a peaker in a particular bucket, then bids and operates the unit to that forecast number of hours appears to be the best way to manage the peaker fleet.

2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

b. Specialized must-offer obligations:

1. Demand response resources

2. Storage resources

3. Variable energy resources

4. At the 11/13 stakeholder meeting there a significant amount of discussion regarding the appropriate method for setting the price for the proposed flexible capacity availability incentive mechanism. Please provide comments about how this issue might be resolved.

5. The ISO has proposed an SFCP evaluation mechanism/formula that weights compliance with the real-time must offer obligation heavier than the day-ahead must offer obligation. Please comment on:

a. The merits of using such a weighting mechanism relative to the "lesser of" proposal from the previous proposal

b. The relative weights between the real-time and day-ahead markets

6. There were several clarifying questions asked at the 11/13 stakeholder meeting regarding substitution of flexible capacity that is on forced outage. Please provide comments and / or questions (and potential answers) regarding any additional clarifications the ISO should make in the next revision to clarify this aspect of the proposal.

7. Please provide comments regarding how, or if, the SFCP adder price and the flexible capacity backstop price should be related.

8. Are there any additional comments your organization wishes to make at this time?

New Mandate to Bid all Certified Ancillary Services; On "non-contingent" Basis

On Page 31, Section 7.1.1, the ISO "proposes all flexible capacity resources that are certified to provide ancillary services must bid or self-schedule into ancillary service markets on a non-contingent dispatch basis for each ancillary service for which they are certified." We appreciate the ISO's desire to ensure that ancillary services are provided to the ISO, however, to introduce a mandate to bid ancillary services and to remove the contingency-only offering is too broad and encompassing, and requires more discussion and thought than a paragraph in a whitepaper. We have established ancillary services markets with FERC approved rules, in which suppliers may bid resources. There are likely situations when a supplier may choose to not bid ancillary services and may need to bid "contingency" status.

It would be reasonable that without a broader stakeholder vetting, that at this time, the ISO should remove this portion of the proposal, paragraph 2 under Section 7.1.1, from the whitepaper.

Fix ISO Peaker dispatch to allow a unit to be dispatched to Pmax based on its Economic Bid; Don't ramp to Pmin.

On Page 34, Section 7.1.2.1, the ISO explains that a resource can be committed to minimum load, yet oddly, the ISO dispatch still looks at a peaker which can reach full load in 10 minutes as a resource which needs to be dispatched to minimum load before it can be dispatched for economic energy. It seems opportune with the issues of flexible capacity resource procurement and dispatch before us, that the

ISO address a dispatch system fix that would allow ISO dispatchers and the ISO EMS system to dispatch peakers for their full output (output in 10 minutes) and to not dispatch a unit to “Pmin” and then wait for hours to ramp a unit up just a few more MW based on an “economic” bid. This would also have the positive impact of not artificially affecting (depressing) RT prices, as when the ISO makes an out of market dispatch of a peaker to “Pmin”, this energy is not priced according to a bid or its variable cost is not factored into the Pnode price, and thus the market prices end up distorted. This is particularly oriented towards peakers that are smaller, <50 MW. For the newer, larger peakers, approximately 100 MW, this would likely not be applicable.