Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Third Revised Straw Proposal, Posted October 3, 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 third revised straw proposal on October 3, 2013, and issues discussed during the stakeholder meeting on October 9, 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 October 16, 2013.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. It is based on one possible measurement of the proportion of the system flexible capacity requirement to each LRA and calculated as the cumulative contribution of the LRA's jurisdictional LSE's contribution to the ISO's largest 3-hour net load ramp each month. Please provide comments regarding the equity and efficiency of the ISO proposed allocation. Specifically, please comment on:

    a. The ISO's proposal to use an LSEs average contribution to historic daily ISO maximum 3-hour load changes to allocate the Δ load component of the flexible capacity requirement.

    Six Cities' Comments: The Cities support this proposed measure for allocating the change in load component of the flexible capacity requirement.

    b. The potential of using historic average daily maximum 3-hour net-load ramps or time of day system maximum 3-hour load ramps (morning vs. evening ramps).

c. What other measurement or allocation factor should the ISO consider to determine an LRA's contribution to the change in load component of the flexible capacity requirement?

d. Should the ISO consider seasonal allocations for each component? What would these seasonal allocations look like?

2. The ISO believes the proposed methodology reflects causation principles. Specific to allocating flexible capacity requirements, what does "causation" mean to your organization and how would this definition be most accurately reflected in a flexible capacity requirements allocation process?

3. What are the appropriate bounds for the maximum and minimum for the error term as well as how to address year-to-year variability? What are the appropriate actions if such bounds are reached?

4. The ISO has proposed must-offer obligations for various types of resources. Please provide comments and recommendations regarding the ISO's proposed must-offer obligations for the following resources types:

   a. Resources not identified as use-limited

      Six Cities' Comments: The Six Cities support the ISO's proposed must-offer requirements for resources that are not use-limited.

   b. 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.

         Six Cities' Comments: In concept the Six Cities support the inclusion of opportunity costs in a use-limited resource's default energy bid, start-up cost, and minimum load cost. However, the Six Cities oppose the ISO's proposal that in exchange for the ability to include opportunity costs in the resource's bids, a use-limited resource must manage its use limitation so that its flexible must-offer obligation may extend beyond its use limitation unless certain monthly minimum must-offer threshold levels are reached, *i.e.*, 90% of SFCP hours and at least 20 days of bidding. Conceptually, this is a significant departure from the current RA paradigm, under which the ISO will respect a resource's use limitation, and once the

resource reaches its use limitation, there is no additional must-offer obligation or exposure to potential penalties. It also is inconsistent with the operational flexibility allowed under existing MSS agreements applicable to several of the Cities.

The ISO's proposal to require "management" of use limitations solely through inclusion of opportunity costs in bids likely will discourage participation by many use-limited resources as flexible capacity resources by imposing unacceptable risks. This is especially problematic given the stringent availability thresholds proposed by the ISO (90% of SFCP hours and 20 days in a month). For example, some of the Six Cities' thermal peaking units have limited monthly run-times (less than 200 hours for some of the units or less than 40% of SFCP hours). Even with the ability to include opportunity costs in bids, it is likely that such peaking units may exhaust their use-limitation hours before the threshold bidding levels are reached and subject themselves to penalties. Imposing unacceptable risks on participation of use-limited resources as flexible capacity resources will effectively reduce the pool of available flexible capacity.

Further, the ISO indicated that the opportunity cost bidding methodology is still in the proof of concept development phase. Therefore, it is unclear and uncertain that opportunity cost bidding can effectively manage use limitation constraints.

Six Cities suggest that until such time as the opportunity cost bidding methodology has been proven to be effective, the ISO apply the existing tools to manage the use-limited resources that are flexible capacity resources, *i.e.*, SLIC tickets to indicate that a resource's use limitation has been reached, after which no additional must-offer obligation will apply under either the SFCP or the SCP. At a minimum, the ISO should apply less burdensome bidding thresholds (*e.g.*, 60% of SFCP hours and 15 days of bidding).

The Six Cities also reiterate their suggestion, discussed at some length in their comments on the 2nd Revised Straw Proposal, that the ISO give detailed consideration to establishing different "buckets" for Flexible RA resources. The bucket concept has been suggested, in greater or lesser detail, by several stakeholders. *See* the ISO's Matrix of Comments and Responses on the Revised Straw Proposal at pages 26 (NRG) and 69 (SDG&E). The ISO's most recent response to these suggestions indicates that the ISO is "willing to consider a bucket approach if over reliance on use limited

resources becomes a concern that impact (*sic*) system reliability." (Comments/Response Matrix re Comments on the 2nd Revised Straw Proposal at 25). This "willing to consider if" response is not an adequate substitute for serious and open-minded analysis prior to imposition of a must-offer/availability incentive regime that will discourage use-limited resources from offering flexible capacity that otherwise could be made available, albeit not as ubiquitously as the ISO might prefer. The Six Cities believe that a bucket approach offers the greatest promise for addressing several of the inherently conflicting objectives in flexible capacity procurement.

Conceptually, the bucket approach would allow resources that cannot satisfy requirements for 5-minute or sustained dispatchability to meet some portion of the ISO's flexibility requirements, while requiring 5-minute dispatchability and the capability for sustained energy production for a defined percentage of the flexible capacity requirements. Establishing different buckets for Flexible RA would provide support for the development of a broad range of resources with different types of operating characteristics, which would reduce the potential adverse consequences (economic, policy, and reliability) of putting all of the reliability eggs in one bucket. If the percentages allowed for each bucket were adjusted gradually from year to year as system characteristics evolve, there would be sufficient durability to support resource development and procurement without locking in a portfolio of resources that may turn out to be unsuitable or inadequate.

Application of a bucket approach also would allow the ISO to manage potential reliability concerns resulting from the relaxation of eligibility criteria or must-offer requirements to accommodate the development of preferred resources. Allowing resources with different flexibility attributes to count toward a portion of Flexible RA requirements is appropriate, but relaxing eligibility criteria or availability requirements on a broad scale could result in threats to reliability or substantial backstop procurement by the ISO. Both consequences would be undesirable, and both could be avoided by implementation of the bucket approach.

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

Six Cities' Comments: As noted in the Cities' comments on the 2nd Revised Straw Proposal, at least two of the Cities (Pasadena and Riverside) require internal resources to maintain distribution system

reliability during peak conditions. Self-scheduling of Flexible RA resources should be permitted during periods when those resources are necessary to manage such local reliability constraints that are not modeled in the ISO's optimization program. The ISO's response to this concern (at page 26 of the Comments/Response matrix) to the effect that the SC for a resource will have to assess all operational limitations of a resource and risks of charges before deciding whether to offer the resource to provide flexible capacity does not substantively address the concern identified by the Cities. It goes without saying that the SC for a resource will have to consider all operational limitations of the resource and the risks of potential charges when deciding whether to make available the flexible capacity of the resource. The question the ISO should be considering, but thus far has not, is whether the Flexible RA framework should encourage maximum participation by use-limited resources by providing reasonable accommodations for local reliability considerations that cannot be "managed" adequately through opportunity costs.

c. Hydro Resources

d. Specialized must-offer obligations (please also include any recommended changes for the duration or timing of the proposed must-offer obligation):

    1. Demand response resources.

    2. Storage resources.

    3. Variable energy resources.

5. The ISO has proposed a flexible capacity availability incentive mechanism Please provide comments of the following aspects of this mechanism:

   Six Cities' Comments: As a threshold issue, the Six Cities do not believe that an availability incentive mechanism should be imposed in CY 2015. The flexible capacity paradigm still needs to be proven effective, and undoubtedly adjustments will need to be made along the way. It is not appropriate to structure an incentive/penalty mechanism until some experience and empirical data are available. The Six Cities urge the ISO to defer the availability incentive mechanism to a later phase of flexible capacity implementation.

   a. The selection of the adder method as the preferred option

1. Should the ISO still consider the bucket method, the "worse-of" method, or some other method not already considered? Why?

b. The price for the flexibility adder. Specifically, if the ISO proposed price is not correct, what price or data source should the ISO consider and why?

c. The interaction between the existing SCP and the proposed SFCP

d. The proposed SFCP evaluation mechanism/formula

1. The formula used to calculate compliance (including the treatment of long-start and use-limited resources)

2. The treatment of forced and planned outages

3. The minimum availability thresholds for use-limited resources

e. The proposed substation rules for forced outages

f. Please also include comments regarding issues the ISO must consider as part of the evaluation mechanism that are not discussed in this proposal.

6. The ISO has proposed to include a backstop procurement provision that would allow the ISO to procure flexible capacity resources to cure deficiencies in LSE SC flexible capacity showings. Please provide comments regarding the following issues of ISO's proposed flexible capacity backstop procurement proposal:

a. The inclusion of the adder methodology

b. The opportunity for LSEs to provide a list of uncommitted flexible capacity that can be used to help cure flexible capacity deficiencies

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

Six Cities' Comments: With respect to the criteria for backstop procurement identified at page 50 of the Third Revised Straw Proposal, it appears that there is no difference in backstop prices for the resources described in criteria numbers 2 and 3. If that is the case, the Cities recommend elimination of the priority under criterion 2, as eliminating that priority will allow the ISO greater discretion in identifying the resource best suited to address a flexible capacity deficiency at the lowest possible cost.