Stakeholder Comments Template

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

Submitted by	Company	Date Submitted
Bonnie Blair bblair@thompsoncoburn.com 202-585-6905	Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California ("Six Cities")	November 27, 2013

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.

   Six Cities' Response: The Six Cities support the methodology to allocate flexible capacity requirements to LRAs as set forth in the Fourth Revised Straw Proposal. With respect to the method for determining each LSE's contribution to the change in load component, the Cities support the method proposed by the ISO as opposed to the non-coincident approach recommended by Pacific Gas and Electric Company. The method set forth in the Fourth Revised Straw Proposal will allocate the change in load component in a manner that aligns more closely with the methodology for determining the system flexible capacity requirement

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

and, therefore, will result in allocations more consistent with the cost causation principle.

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.

   Six Cities' Response: No comments at this time.

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.

         Six Cities' Response: The must-offer obligation for gas-fired use-limited resources described in the Fourth Revised Straw Proposal will impose even greater risks than the previous proposal for such resources that seek to participate as Flexible RA Resources to the extent consistent with their use limitations. Although the Cities support the concept of including opportunity costs in a use-limited resource's default energy bid, start-up cost, and minimum load cost, the Cities oppose the ISO's conclusion that use limitations should be managed exclusively through recognition of opportunity costs. That aspect of the ISO's proposal is especially problematic in light of statements during stakeholder meetings indicating that the ISO intends to set opportunity costs at levels expected to exhaust use limitations by design. The ISO's proposal to require "management" of use limitations solely through inclusion of opportunity costs in bids at levels likely to exhaust use limits will discourage participation by many use-limited resources as flexible capacity resources by imposing unacceptable risks. Fundamentally, the proposed algorithm to maximize revenues given the use limitation constraint is flawed in that it does not take into account the cost of replacement capacity or the penalty that could be assessed to the flexible RA resource if the use limitation is reached before the end of the month. Further, modeling an annual use limitation constraint by assuming equal monthly increments is overly simplistic and is likely to yield unreasonable results.

To the extent the ISO intentionally seeks to discourage participation by use-limited resources as flexible capacity resources, as suggested during the most recent stakeholder meeting, that policy is inconsistent with the preservation of system reliability at the most reasonable cost. While it is reasonable to structure the flexible RA program in a manner that offers greater compensation to resources that can make flexible capacity available during any and all hours of the extended must-offer periods proposed by the ISO, it makes no sense to effectively foreclose participation by resources that can make flexible capacity available during a substantial portion of the availability period by imposing unacceptable risks. Reducing the pool of available flexible capacity in this manner will both drive up the costs of maintaining adequate flexible capacity and potentially limit operational flexibility, reducing reliability. Moreover, the ISO's proposal to apply must-offer requirements to gas-fired use-limited resources so stringent as to effectively preclude such resources from participating as flexible RA resources while simultaneously applying more relaxed must-offer requirements to other types of resources (*e.g.*, Demand Response and Variable Energy Resources) violates the ISO's commitment to craft market participation rules that are technology neutral.

In addition, currently there are arrangements under the Metered Subsystem (MSS) paradigm whereby the MSS entities may elect net load settlement. Under this net settlement arrangement, the MSS entities are prevented from recovering start-up and minimum load costs from the ISO markets. The current net settlement paradigm does not, however, prevent the MSS entities' resources from fully participating in the ISO market as RA resources despite the use limitations of some of these resources. If, however, the ISO's proposed treatment of use-limited, dispatchable gas-fired generation is adopted, MSS entities' resources will be faced with multiple economic disadvantages to effectively function as flexible RA capacity resources, *i.e.,* (a) inability to recover opportunity costs associated with start-up and minimum load, and (b) the cost of replacement capacity or performance penalties as described above. Such an outcome is contrary to the goal of the MSS paradigm of incentivizing MSS resources to participate in the market to the fullest extent possible while preserving MSS entities' ability to effectively manage MSS entities' system and/or resource limitations.

The Six Cities again urge the ISO to give serious 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 Second 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.

The bucket approach would allow the ISO to attach the highest value to resources that can make flexible capacity available over the full range of the availability period proposed by the ISO. At the same time, it 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 in a non-discriminatory way the 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, provided that it is implemented on a technology neutral basis, 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.

If the ISO remains unwilling to give serious consideration to a bucket approach, at a very minimum, the ISO should revert back to its proposed methodology in section 8.5.3 of the Third Revised Straw Proposal outlining an opportunity cost calculation methodology that would allow use-limited resources some flexibility in managing monthly use limitations. The ISO's previous proposal included a two part flexible capacity availability standard that would allow use-limited resources an exception from having the monthly use limitation count against them on their SFCP calculation. The two parts of the standard are:

> 1) Economically bid-in up to that point all of the resource's flexible capacity for at least 90% of Standard Flexible Capacity Product hours, and
>
> 2) Economically bid in at least 20 days over the month.

If both of the conditions are met, then the resource would be exempt from the SFCP for the remainder of the month. Any "hard stop" usage during a day prior to meeting these thresholds would count as if the resource had not economically bid-in for those hours. If an annual limitation is reached within a month, and the resource has economically bid-in up to that point at least 90% of the SFCP hours during at least twenty days of the month, then the resource would be exempt from the SFCP for the remainder of the month. If the resource is shown on subsequent monthly RA showings and no substitute capacity is provided, the resource would be subject to SFCP availability charges.

The Six Cities' comments on the Third Revised Straw Proposal challenged the 90% hours/20 days in the month thresholds as creating potentially unmanageable risks for use-limited resources. The thresholds included in the Third Revised Straw Proposal, however, were preferable to the latest change in the Fourth Revised Straw proposal imposing an absolute requirement on resources that reach their use limitations before the end of the month to provide substitute capacity or be subject to SFCP availability charges. As described above, the approach included in the Fourth Revised Straw Proposal is unworkable and will impose unnecessary additional costs on much needed resources. In the event the ISO rejects the bucket approach outlined above, it should reinstate the threshold approach from the Third Revised Straw Proposal at a minimum.

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

   Six Cities' Response: As noted in the Cities' comments on the Second and Third Revised Straw Proposals, 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 and, therefore, not resolved by the ISO. For the reasons discussed above, the Six Cities strongly oppose the ISO's apparent policy of seeking to discourage participation as Flexible RA resources by all gas-fired resources that, for reliability or environmental reasons, cannot economically bid their capacity for the entire availability period proposed by the ISO. Such a policy is not technology neutral and will impose unnecessary costs for procurement of flexible capacity.

b. Specialized must-offer obligations:

   1. Demand response resources

   2. Storage resources

   3. Variable energy resources

   Six Cities' Response: As discussed above, allowing special accommodations for certain types of resources while simultaneously denying parallel accommodations for gas-fired use-limited resources violates the principle of technology neutrality and, therefore, will distort market outcomes.

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.

Six Cities' Response: No comments at this time.

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

Six Cities' Response: No comments at this time.

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.

Six Cities' Response: No comments at this time.

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

Six Cities' Response: No comments at this time.

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

Six Cities' Response: No additional comments at this time.