California ISO
Shaping a Renewed Future

Reliability Services

Preliminary responses to comments on the second revised draft proposal

December 22, 2014

1. Introduction

The ISO has revised the comment response matrix template and going forward will include responses to comments within the next draft. This document is the ISO's preliminary response to comments received on the Reliability Services second revised proposal. It primarily responds to the availability incentive mechanism, replacement section, and new RA section. A more detailed response that will include comments on the working group and all sections will be in the final draft proposal. The final draft proposal and final responses to comments will be posted on January 20, 2015.

2. Revisions to October 22nd second revised straw proposal and response to comments

Part 1: ISO review of must-offer obligations:

The ISO has clarified the RUC bidding rules for Proxy Demand Resources in response to stakeholder comments on the need for additional details.

Part 2: Availability incentive mechanism:

Most parties support or at least do not severely oppose the general availability incentive mechanism construct. (CPUC, Calpine, CDWR, CLECA, Enernoc, NCPA, PGE, SDG&E, Six Cities, and WPTF)

Two parties continue to have concerns with general RAAIM construct. ISO proposes a single availability assessment in order to incent economic bidding of flexible RA. NRG argues the value of flexible RA is $0 and therefore it is unfair to count a resource as fully unavailable if it self-schedules a MW during an hour that MW has both flexible and generic MOO requirements. Both the ISO and MSC have noted that the current proposed construct incents flexible resources to sell themselves flexible RA and discourages non-flexible resources from doing so-which is the ideal outcome. NRG's proposal would allow suppliers to sell capacity as flexible RA, self-schedule during the peak ramping hours, and not face any financial repercussions. NRG also objects to reducing the target range from 5% to 4%. The ISO continues to propose the narrower threshold in order to allow increased transfers of low performer funds to high performers.

Additionally, SCE proposes that RA capacity not receive any AIM penalties if it can meet any of its must-offer obligations. Because flexible RA and generic RA are bundled 99.9% of the time and the technical must-offer obligation for generic RA is 24 hours, or "as available" for use-limited resources, SCE proposes for all practical purposes there is no availability metric for flexible RA. This is a fundamental difference in opinion about whether the market or outside mechanism should incent resource participation. The ISO maintains that there should continue to be an outside mechanism in addition to energy market incentives.

The ISO proposes the following changes to the availability incentive mechanism section.

- The acronym for the availability incentive mechanism has been changed from AIM to RAAIM (resource adequacy availability incentive mechanism). This was requested because AIM already is taken by another ISO process.
- The availability incentive mechanism price proposal has changed. The ISO proposes that the price be set at 60% of CPM soft offer cap price. This change was made to address stakeholder concerns on durability and how the price would be updated in the future. By tying it to the CPM soft offer cap price, the price will still correspond to a high average bilateral price, but also be automatically updated each time the CPM soft offer cap is updated. Some stakeholders pointed out that the ISO will still need to verify that the updated AIM price using the 60% does not significantly deviate from RA prices. The ISO agrees and will monitor this going forward.
- The ISO has clarified that a PDR resource will be able to use the non-environmental use-limit reached outage for a set number of hours after being dispatched for three consecutive days in response to comments from the PDR community. The ISO is still considering what this number of hours should be and whether 48 may be too restrictive.
- The ISO has clarified that load following MSS resources are exempt from the AIM for all capacity types- local, system, and flexible in response to stakeholder request for clarification.
- The ISO has clarified participating load rules in response to CDWR comments.

Part 3: Replacement and substitution sections

Most parties support or do not oppose the ISO's proposed new replacement and substitution rules. (Calpine, CLECA, CDWR, NCPA, NRG, Six Cities, SCE, SDG&E, WPTF)

- The ISO has clarified the timing of the substitution rules in response to stakeholder questions. The ISO will file all new substitution rules in the initial tariff filing at FERC for planned implementation of Q3 2015.
- In response to stakeholder requests and analysis of previous outages, the ISO proposes that if the ISO requests a previously approved outage to move, then the new outage will have no replacement requirement.
- In response to multiple stakeholder concerns including SCE and PGE, the ISO has revised the 2017 RA process timeline to follow the timeline outlined by PGE in their comments. This moves the initial RA monthly deadline to T-45 and maintains the current cure period length for planned outage replacement.

Part 4: Other Resource Adequacy Rules

- Part four, "Other Resource Adequacy rules" has been added to in order to clearly separate out and call attention to proposed changes that will affect RA rules that are not specifically related to part one through three.
- The ISO proposes to remove the option for LSEs to be MRS-LSE as a tariff clean up matter as this option has never been used and there is no indication it ever will be used.
- Flexible category showing and must-offer rules are clarified to require that each resource only has a single flexible must-offer obligation. A resource may be shown in multiple categories, but the obligation on all the resource's RA capacity will be equal to the highest quality category shown. This is being changed to reduce implementation complexity and in recognition that flexible categories were created to allow different resources to participate as flexible requirements, not to reduce the obligation of resources fully capable of meeting the higher must-offer obligation.
- Rules are being established to account for the use-limited definition proposed in the Commitment Cost Enhancements phase II initiative. These rules will not change the underlying current policy, but simply accommodate a new use-limited definition.
  - Residual unit commitment (RUC) rules are being clarified to account for the new definition.
  - Energy and ancillary service bid insertion rules are being clarified to account for the new definition.
- The ISO has clarified participating load rules in response to CDWR comments.

Requests for changes that have not been included in final draft:

- The ISO proposes to exempt wind, solar, and CHP resources from the generic must-offer obligation. SDG&E has a philosophical objection to these exemptions and would like the ISO to put in place a process where each resource has to ask for an exemption and it isn't automatically granted. The ISO agrees that while ideally each resource would ask for an exemption; wind, solar, and CHP resources would require unique and costly implementation criteria in the event even a single resource did not ask for an exemption.
- While most stakeholders that commented on the RAAIM price, commented in support of the ISO's proposed $3.5/kW-month price; PG&E believes this price needs to be equal to the CPM soft offer cap price ($6.31/kW-month) to ensure substitution capacity is provided during forced outages and that the CPM mechanism is therefore not used. The ISO has continually noted (1) the average system contract price is around $1/kW-month and so the current price is overly punitive to suppliers, (2) the CPM price in the future is not the offer cap price, but a market-based price which is expected to be significantly lower than the cap, and (3) finally that the ISO has historically only used the CPM once for a non-exempt forced outage and that was for SONGS. PG&E did soften their stance slightly and allow that perhaps 80% of the CPM soft offer cap price was reasonable.

- The ISO proposes to create a roll-over account and if there are not enough over-performers in a month to allocate all the monthly under-performer penalties to, the funds would roll-over to the next month to incent supply. PG&E argues suppliers shouldn't get this and it should be allocated on load ratio share back to LSEs. The ISO maintains that incentive payments are most appropriately paid to supplier and not LSEs as it is the supplier that is ultimately responsible for resource outage management.
- Currently the ISO considers every local resource to count toward local RA requirement and have a local substitute resource in the event of a forced outage, even if the resource was not sold as local. ISO has proposed to address this in phase two due to the complexity of resolving issue. Certain parties would like this to be considered in phase one. The ISO has delayed this in order to take more time to understand the implications and think through the policy in more detail.
- PG&E still has some concerns about moving the outage coordination obligation entirely on the supplier. The ISO has had extensive conversations with PG&E's portfolio management team. They note that while coordination would be easier for the CAISO and most parties, a portion of PG&E's coordination efforts would still not be simplified. They have asked for an outage processing platform and assign the entity according to the contract. We looked into this internally and it is not feasible to assign responsibility according to a contract as this would end up in a coordination and MW accounting circle that would be complex and lack any transparency. It would also be infeasible to implement a flexible replacement rule using this methodology. However, an outage processing platform is possible. It would take significant thought, resources, and therefore the ISO proposes to consider this after experience with the new rules in place to be able to fully develop the needed tool.