Western Power Trading Forum Comments on CAISO Flexible RA and Must Offer Requirement Third Revised Straw Proposal

Ellen Wolfe, Resero Consulting for WPTF, 916 791-4533, ewolfe@resero.com

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WPTF appreciates the opportunity to submit comments on the October 3, 2013 Third Revised Straw Proposal for flexible RA capacity and MOO ("FRAC MOO"). We offer comments in the following areas.

"Counting Rules" still need to be resolved

WPTF continues to be concerned about the differential must-offer requirements for various resource types. It makes sense for the ISO to develop a mechanism to maximize the use of the flexible resources on the system. However, it is very important that some resources (e.g., flexible gas-fired generation) not be burdened with a much greater must-offer requirement than others, yet be compensated the same, or counted equally, with resources providing less flexibility. WPTF understands that the CPUC is addressing the issue of how to properly count resources for RA in its RA proceeding. We strongly encourage the ISO to take an active role in that CPUC process, and to encourage the CPUC to develop policies that support the ISO's needs. That said, whether that goal is successfully met or not, the ISO must recognize that it ultimately may have to make provisions to ensure that both rules for participation, and compensation, to the flexible resources are commensurate with their contribution to the ISO's flexibility needs.

WPTF supports the ISO's preferred "adder" method

The "adder" method allows flexible capacity to be distinguished from generic capacity and maximizes the incentives for such resources to make whatever flexible capacity is available to the ISO in its markets. Therefore, WPTF advocates that the ISO adopt the adder approach. We also request that the ISO develop a procedure that permits a supplier to submit an "outage" status indicator (or something equivalent) for the flexible capacity, versus simply using no bids to convey a reduction in the ability to offer flexibility (as opposed to an actual and complete physical outage of the capacity in question).

The ISO's proposed penalty price for the FRAC MOO needs revision and substitution/replacement should be allowed to the extent workable

The ISO's basis for the proposed \$23.25/kw-yr lacks merit. The ISO based this proposal on the price spread between high-priced and lower-priced RA resources in public CPUC data related to RA contracting. There is very little support for the ISO's presumption that the differences in the RA contract prices are limited to, or at all related to, the flexibility of the resources.

WPTF agrees with the ISO's observation that when the Reliability Services Auction (RSA) is operational indicative market prices may be available. However in the early years of FRAC MOO, WPTF expects that the ISO may still be more than fully sourced for flexibility in most hours. As a result a penalty price of \$23.25/kw-yr would overstate the impacts of the unavailability and would thereby be punitive. WPTF

suggests the ISO either sharpen its pencils and find other more specific proxies, or consider a replacement-cost approach to penalties for FRAC MOO until the RSA is in place and can be used both for resource replacement and to provide the appropriate price signals.

In the same vein, the ISO at its October 9, 2013 stakeholder meeting discussed the philosophy that suppliers should not be able to replace their FRAC in the case, for example, that they simply did not want to bid. While this is an extreme example, it raises the question of what the impact should be to a supplier who is not able to provide the obligated flexibility, for whatever reason, when the system is oversupplied with flexible capacity. During such times the supplier or the ISO could likely easily replace at a low cost. Under these circumstances it would be unreasonable to prevent the supplier from replacing its FRAC, and it would be unreasonable to impose a high penalty. And it certainly would be unreasonable to do both.

The ISO needs to rethink its penalty price and to clarify its replacement policy.

WPTF supports the move to LRA allocation based on coincident peak load variation with limited changes.

WPTF supports the ISO's proposal to allocate FRAC requirements on load variation based on a Local Reliablity Authority's (LRA's) load change during the ISO's maximum 3-hour ramps. However, using a daily average of this relative load variation would seem to be inconsistent with the ISO's procurement policy, which is likely to be based on some severe condition and not varied by hour. WPTF requests that the ISO consider instead an approach based – for example – on the coincident ramp during the 10 most significant 3-hour ISO ramps. The ISO should also *credit* the LRA if its ramp lessens the ISO's need.

Careful consideration is required to ensure Combined Heat and Power (CHP) resources are not locked out of the RA market

WPTF and other organizations continue to point out to the ISO that the design of FRAC MOO may produce circumstances that make any RA participation by CHP resources unworkable. To avoid this outcome, the ISO must make it entirely clear that the Effective Flexible Capacity (EFC) simply reflects the number above which a unit cannot physically provide flexibility in the ISO's eyes. The EFC does not represent the flexible capacity available at all times. As the ISO has discussed with respect to hydro resources, a resource's flexible capacity may be lower than the EFC much of the time. In fact, the flexible range for CHP facilities may change dramatically across a year. As a result, the EFC itself should have no bearing whatsoever on what LSEs contract from suppliers, other than to limit parties from selling flexible capacity beyond the EFC. Rather, a supplier alone should be able to specify its flexible range available for purposes of an LSE's "showing".

Quite simply, any supplier should always be able to sell generic RA alone or also sell any amount of flexible RA from the entire range of zero to the EFC output level. The ISO should make it entirely clear that no supplier is *required* to sell any flexible RA simply because they sell generic RA and have a non-zero EFC. Even within the confines of the CPUC and ISO's "bundling" rule a supplier is not *required* to sell any flexibility to a buyer, but rather the bundling rule provides that a supplier may sell FRAC to a

buyer to the extent it is within the unit's EFC and does not exceed the generic capacity that was also sold to that buyer.

The ISO and LSEs must also recognize that outages have to be treated carefully. A reduction of 25% of a CHP's output does not equate to a 25% reduction in the flexible capacity available to the LSE. Instead, a reduction in a CHP's output capability of 25% might mean that it can offer no flexible capacity.

The ISO asked for comments as to why CHP resource issues are not addressed by the other proposed provisions. No other provisions protect CHP resources. Though the resources have use limitations, they are not limitations that can be managed with economic bids – as most CHPs have a secondary electricity production priority over host steam needs. And though the CHP resources have limitations on when they can offer, the ISO's other model of reducing the must-offer time window does not meet the needs of a CHP resource, given that their steam needs are not manageable in nice packaged time buckets. Quite simply, the CHP resources should be able specify how much flexibility they have available during each time period and only be required to market - and offer - that amount of flexibility. The CHP resources should also have the ability to convey how this flexibility changes under specific outages.

Thank you for your consideration.