

Western Power Trading Forum Comments

On

CAISO Fifth Revised FRAC MOO Proposal

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WPTF appreciates the opportunity to submit comments on the CAISO's Fifth Revised Flexible Resource Adequacy and Must Offer Obligation proposal, dated January 17, 2014. WPTF offers limited comments on those elements that have been modified in the CAISO's 5<sup>th</sup> revised proposal as well as other remaining WPTF items of concern.

WPTF generally supports the ISO's backstop procurement proposal and deferral of certain design elements to phase 2

WPTF supports the CAISO's proposal to defer MOO penalties/incentives until a subsequent phase after consideration has been given to the Reliability Services Auction. It also seems reasonable at this time to defer the opportunity cost and replacement design elements, especially to ensure that the phase 1 design can be implemented in a timely manner.

We request, however, further details about the ISO's proposed backstop procurement and the cost allocation that would result. To this end, we ask that the ISO consider what it would do to procure FRAC when:

- A generic RA deficiency exists but the FRAC and generic deficiencies would accrue to different LRAs?
- Generic RA and flexible RA deficiencies exist and could be procured from separate units? and
- No generic deficiency exists and a generic RA resource may be willing to offer FRAC at less than CPM?

We hope that the ISO is not in a position to need to backstop FRAC before the development of the RSA. However, it seems prudent to have comprehensive and robust rules in place until that time to prescribe how the ISO would effectively backstop a FRAC deficiency.

WPTF generally supports the ISO's proposal for flexibility categories

We believe the ISO's proposal for flexible categories is an improvement over one that affords different requirements for different technologies without the attribute that more flexible resources can more easily fulfill an LSE's requirement.

ISO needs to further specify categories

WPTF asks that the ISO refine the proposed category criteria. In particular, the extent to which use limitations preclude satisfaction of category 1 and category 2 definitions needs clarification, and based

on the stakeholder discussions it seems the use of the formal “Use-Limited” tariff definition is unnecessarily constraining. Rather we ask that the ISO clarify that any unit that can meet the offer requirement for a particular category be considered as eligible for that category.

#### The error term needs further specification

WPTF agrees with the CAISO staff that an unspecified error term creates risk, and thereby costs, for market participants. We recognize the ISO’s interest in being able to modify the requirement formulation. However, we believe that any substantial modification would warrant a subsequent FERC authorization.

We question, however, the proposed error formulation whereby the ISO is proposing an error adder as opposed to an error multiplier. WPTF questions whether a multiplier might be more appropriate, more easily allowing an error range to be specified. Our recommendation is that the ISO consider specifying two ranges, one in which the ISO staff could make a change to the requirement following an abbreviated stakeholder process, and a larger range wherein the ISO could make a change to the requirement following board approval. To make changes outside of this broader range would warrant FERC approval. WPTF also proposes that the ISO impose a limit on the change the ISO can make in the error factor from year-to-year.

Such a set of ranges might be as follows.

- CAISO sets flexibility multiplier factor within +/- 3% (e.g., between 97% and 103%) each year based on an stakeholder process
- To set the factor beyond +/- 3% but within +/- 6%, or to change the factor by more than 3% from the prior year, warrants board approval
- To set the factor outside the +/- 6% range or to change the factor by more than 6% per year requires FERC approval.

We believe such a set of limitations would significantly reduce the risks market participants would recognize from the possibility of unexpected changes to the flexibility requirements.

#### LSEs need flexible RA information as soon as possible to contain the cost of procuring flexible RA for 2015

LSEs have a very short window to procure flexible RA for the 2015 year. WPTF has significant concerns that by not providing the EFC values by September it will make it unworkable for LSEs to procure FRAC in time for the 2016 showing. Anything the CAISO can do to post LSE requirements, and guidance regarding flexible categories, as soon as possible will reduce LSEs’ flexible RA procurement costs.

To the extent the CAISO and CPUC policies and timelines aligned, FRAC costs can be reduced

The CAISO has proposed to provide to the CPUC both the CPUC's (as a Local Reliability Authority, or "LRA") share of FRAC requirements and the individual LSE's requirements within the CPUC LRA. We encourage the ISO to work with the CPUC in the CPUC's development of FRAC requirements to align the allocation of FRAC to LSEs consistent with the ISO's determination of LRA FRAC requirements based on each LSE's contribution to the burden. Doing so will ensure cost-causation carries through to the CPUC jurisdiction. Similarly to the extent that timelines between the ISO and CPUC can be aligned, the procurement process will be more efficient and the FRAC costs lower.

Further guidance is needed from the ISO regarding CHP

In discussion with ISO staff, the staff has indicated that they agree that Combined Heat and Power resources should only contract for that range of their output for which flexible market bids can be offered. In this sense even if the ISO posts an EFC that may exceed the resource's ability to offer economic bids for the full ISO-determined EFC range it is perfectly acceptable that a resource owner only offer in bilateral contracting that range for flexible RA that it can provide without impacting its needs to self-schedule to meet other host obligations. In this manner the resource can continue to provide generic RA only for that portion of its range that is not flexible given the other host needs.

However, CPUC staff-proposed policies call for CHP resources to be "bid to the fullest extent possible". Staff RA Proposal dated, 1/16/2014, p. 5. WPTF is concerned both because the CPUC seems to view the flexible RA as resource-based and not range based, and because the directive to "bid to the fullest extent possible" may establish offer obligations that extend beyond the capacity negotiated bilaterally between parties.

We request that the ISO provide clear guidance in its policy that flexible RA resource is only expected to offer as flexible the range that it sold as FRAC, rather than there being an expectation that at any point in time quantities beyond the contracted range must be offered into the CAISO market economically.

Further clarity is warranted regarding confidentiality

LSEs will soon be required to submit resource data to the ISO, yet it is unclear the extent to which will protect the confidentiality of that data. WPTF requests that the ISO ensure that LSE-specific information is not released publicly, and that public information is sufficiently grossed up across LSEs that any data is released can be assured to no longer be business sensitive.

We thank you for your consideration.