Western Power Trading Forum Comments on Flexible Resource Adequacy Criteria and Must-Offer Obligation Phase Two Working Group on August 2, 2017

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About the Western Power Trading Forum Position

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability in order to ultimately reduce the long-run cost of electricity to consumers throughout the region. Our comments reflect WPTF Board approved principles.

WPTF supports uniform rules and transparency in order to facilitate transactions among market participants. The membership of WPTF includes load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities, all of which participate actively in the California market and other such markets in the West and across the country.[1]

Introduction

WPTF appreciates the opportunity to provide these comments on the ISO's FRAC MOO Phase 2 Revised Working Group held on August 2, 2017. WPTF has submitted a simple, illustrative-only proposal three times for ISO consideration, but has received no acknowledgement from the ISO on it or our long-term RA perspective in any stakeholder comment recap or summary.[2] Rather than continue to reiterate these comments we simply note our previous comments are still applicable.

It is WPTF's understanding that the current CAISO proposal is that the flexible capacity requirement be based on dispatchability needs (gross peak load minus minimum forecasted net load[3]). WPTF supports this proposal. As noted in our prior comments, WPTF believes the flexible capacity requirement should be set based on the need for economic bids. Additionally WPTF believes the only way to have a functional and meaningful flexible capacity requirement is to set it very high relative to the system requirement. The CAISO proposal meets both criteria.

WPTF is less certain what the current CAISO proposal is for determining capacity eligibility to meet the proposed requirement and will wait for additional clarity before providing comments.

Finally, before moving to specific comments, WPTF would like to note that this initiative does not have to be the end all, be all, in incenting flexibility from the CAISO fleet. The CAISO can also enact energy market reforms and, if necessary, procure backstop capacity. In fact, it will likely be cheaper for the CAISO to occasionally backstop than to create, for example, a 4-part flexible capacity requirement each with multiple layers of eligible resources. WPTF therefore urges the CAISO to keep it simple and target the creation of products that will incent LSEs to

[1] A member list can be found here and these comments do not necessarily represent individual member views.
[2] WPTF submitted the proposal in comments initially on September 29, 2015, January 7, 2016, and May 22, 2017.
[3] Net load will be redefined as load – nondispatchable capacity

contract with the most flexible resources, and incent interties to economically offer in their capacity. This will provide proper market incentives resulting in economically efficient outcomes, including the potential of the retirement of less flexible, unneeded capacity.

General Flexible Capacity Product Comments

WPTF believes that the CAISO should take one step back before proceeding with a myriad of operational needs assessments. It is essential to evaluate grid needs and any proposal certainly should certainly be measured against such need. However, the ISO has not yet articulated three critical policy decisions that are needed to reign in the potential chaos of information and inevitable morass of using it to define multiple flexible products.

1. Define "needs" in "operational needs assessment"

This is not intended to be pedantic. WPTF supports the CAISO clearly defining and significantly narrowing the intent of the flexible capacity requirement. Slide 30 seems to indicate one intent is to "satisfy all operational needs all hours of the year." WPTF asserts that is simply asking too much from the requirement (as we noted in our previous comments). WPTF asks the question, would it be enough to simply define the flexible capacity requirement as the need for economic offers and then use the eligibility requirement to ensure the most flexible resources are the ones contracted? For example, if the CAISO ran a Monte Carlo study similar to the one SCE did back in 2014, and noted that the grid couldn't operate on the least flexible resource mix, could the CAISO then simply eliminate some of the less flexible capacity from the product eligibility?

2. Define the relationship between the flexible capacity product and curtailment

The ISO should be able to explicitly discuss the connection between the flexible capacity product and curtailment. WPTF notes that by defining net load as gross load minus inflexible capacity, and by setting the requirement as gross load minus minimum net load, the CAISO is inherently planning the grid for full *economic* curtailment of renewables, but trying to avoid *self-schedule* curtailment. Given the current levels of economic participation by renewable resources this seems reasonable.

That said, as renewables increasingly economically offer into the market, the CAISO should consider having a variable adder in their requirement formula that accommodates any potential grid issues with economic curtailment on a massive scale. It could be that while the grid can easily economically curtail 3,000 MWs, it would have a much harder time with 10,000 MW and therefore there may be a need for additional flexible resources (especially exports, storage, or fast-start resources) to prevent grid instability.

3. Define the intent of the flexible capacity product

The CAISO still has not really defined what they are trying to get out of the product in terms of resource incentives or whether they think the flexible requirement is more like the system or local requirement. This is important because in some ways the local and system RA requirement are very different. The system RA requirement is meant to ensure there is sufficient capacity in each month to meet potential peak energy needs. The local RA requirement ensures there is sufficient capacity to meet the annual peak need each month, and *additionally* is intended to reduce reliance on CAISO backstop and "provide assurance of revenue adequacy to those units that are most needed to ensure the reliability of the CAISO grid, and encourage the type of longer term, LSE-based procurement."[4]

[4] CPUC Rulemaking 05-12-013, Opinion on Local Resource Adequacy Requirements, page 42.

WPTF asserts that the flexible requirement is similar to local RA and should be set to encourage longer-term procurement. Shorter term capacity procurement of less than a year is likely to be insufficient to increase capital investments to achieve greater individual resource flexibility. Furthermore, this may unintentionally lead to increased flexible capacity needs if a resource is allowed to self-schedule in non-RA capacity months.

Comments on the Need for Energy Market Enhancements to Increase Flexibility

WPTF supports the ISO's assertion that they plan to integrate high-levels of wind and solar resources through both energy market and RA market enhancements.[5] The ISO and various market participants have identified the following list of energy enhancements that WPTF agrees should be a priority:

- Lowering the bid floor. This will incent all resources to become more flexible in the downward direction, including imports. WPTF supports this being implemented at the same time or just ahead of regulation market reform.[6]
- Revisiting export charges. This charge reduces incentives to export outside the EIM market and reduces flexibility. Powerex has noted this issue in numerous processes in addition to the FRAC MOO initiative.[7]
- Aligning day-ahead and real-time market: Procurement of flexible ramping capacity in the day-ahead market is among important reforms that better align the day-ahead and real-time market. These are tentatively planned to be addressed in the ISO's real-time market enhancements initiatives.
- Examining use of Load Bias: Examining the underlying causes of operators biasing the real-time market load forecast 80% of the time and exploring whether the flexible ramping or regulation requirements should be changed to reduce this practice. With adequate flexible ramping capacity and regulation capacity are available to meet reliability needs, Load Bias need not be used as an operational crutch. Minimizing the Load Bias and letting the market optimization function as intended will yield the most economically efficient outcome without compromising reliability.

[5] The need for energy market and capacity market reform was stated multiple times at the May 8, 2017 FRAC MOO meeting.

[6] The current decoupling of regulation dispatch and energy offers has caused adverse settlement impacts on providers of regulation. We would expect lowering the bid floor may exacerbate this issue.

[7] http://www.caiso.com/Documents/PowerexComments-Import-ExportLiquidityinFMM-Oct6-2015.pdf , http://www.caiso.com/Documents/PowerexComments-TransmissionAccessChargeWholesaleBillingDeterminant-IssuePaper.pdf