

Flexible Capacity Procurement Issue Paper, January 27, 2012

Submitted by	Company	Date Submitted
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1. The ISO has proposed this stakeholder initiative be conducted in two phases. Phase one will focus on very specific and limited authority to procure 1) flexible resources at risk of retirement in the next five years and, 2) flexible capacity to remedy LSE deficiencies in meeting LRA flexible capacity requirements. Phase two will address additional modifications as required to address changes to RA procurement requirements, including the potential for a multi-year flexible capacity requirement. Does your organization agree with a two phased approach to this initiative? If not, please provide specific suggestions regarding alternative approaches.

Response: *CESA agrees with the two-phased approach.*

2. The ISO has identified six principles that will guide the development of the Flexible Capacity Procurement stakeholder initiative.

a. Are the guiding principles outlined in the issue paper appropriate?

Response: *The guiding principals seem appropriate.*

b. Are there additional guiding principles the ISO should consider? Please provide any additional guiding principles your organization believes should be included and why your organization believes the additional guiding principles are important.

Response: *Comparable treatment of use-limited resources such as energy storage should be added to the list of guiding principals.*

3. The ISO has identified three categories of flexible capacity needed to reliably operate the grid in the future. Please provide input and or questions regarding these three categories, including:

a. Has the ISO adequately defined the categories of capacity that will be needed to reliably operate the grid?

Response: *The categories appear adequately defined.*

- b. What additional information should the ISO provide to aide stakeholders' understanding of the types of capacity outlined in the issue paper? Stakeholders may also comment on the ISO's proposal in the CPUC's RA proceeding (R.11-10-023).¹

Response: *None at this time.*

- c. The ISO proposes to allow LSEs an opportunity to remedy any flexible capacity shortfalls. What is the appropriate length of time to allow LSEs to cure shortfalls.

Response: *CESA defers to others as to the best answer to this question.*

4. The ISO has identified two types of flexible procurement that will be addressed as part of phase one of this stakeholder initiative: 1) Flexible resources at risk of retirement in the next five years and, 2) flexible capacity procurement to remedy LSE deficiencies in meeting LRA flexible capacity requirements.

- a. When considering flexible resources at risk of retirement, is a five year outlook the appropriate time frame to use when assessing need? If not, what would your organization recommend? Please provide detail regarding why an alternative time horizon should be considered.

Response: *Five years appears to be an appropriate time frame.*

- b. When considering flexible capacity procurement to remedy LSE deficiencies in meeting LRA flexible capacity requirements for phase one of this stakeholder initiative, should the ISO assess compliance with flexibility requirements on a system wide basis or by each LRA?

Response: *CESA defers to others as to the best answer to this question.*

5. The ISO has identified numerous issues with respect to resource eligibility for Flexible Capacity Procurement. All questions apply to both flexible resources at risk of retirement in the next five years and flexible capacity procurement to remedy LSE deficiencies in meeting LRA flexible capacity requirements. If you organization believes the treatment should differ based on the reason for the flexible capacity procurement award, please provide detailed answers for both.

- a. What additional information should flexible resources be required to submit to the ISO in order to be considered for a flexible capacity procurement award as a resource at risk of retirement?

Response: *While CESA has no suggestions for information gathering from resources at risk of retirement, any procurement award should be open and equally accessible to both existing resources and new entrants.*

¹ The ISO's proposal in the CPUC's RA proceeding can be found at <http://docs.cpuc.ca.gov/efile/CM/157720.pdf>

- b. With respect to current RA status, should the ISO examine flexible resources at risk of retirement if the resource currently has a RA contract or should such an assessment be performed if a resource does not currently have a RA contract? Please provide support for you position.

Response: *CESA expresses no opinion as to the best answer to this question.*

- c. How should the ISO consider use-limited resources when considering whether or not to make a backstop flexible capacity procurement award? Please provide support for you position and specify if your response focuses on a particular resource type (i.e. peakers, storage, DR, etc.).

Response: *Focusing specifically on energy storage, the ISO should consider energy storage resources as an important tool in their tool kit for added flexibility because energy storage resources by its nature is flexible. Energy storage can be sited easily to maximize locational benefits and the CAISO can benefit by utilizing these bi-directional rapid-ramping and fast-responding capabilities. The CAISO should design operating protocols to optimize the use of these flexible resources so that they are utilized to their full potential.*

- d. The ISO has limited visibility of resources on interties. Should resources on the interties (i.e. imports) that are not dynamically scheduled or a pseudo-tie be eligible for flexible capacity procurement awards?

Response: *CESA expresses no opinion as to the best answer to this question.*

6. The ISO must define the criteria that will be utilized to offer flexible capacity procurement awards. All questions apply to both flexible resources at risk of retirement in the next five years and flexible capacity procurement to remedy LSE deficiencies in meeting LRA flexible capacity requirements. If you organization believes the treatment should differ based on the reason for the flexible capacity procurement award, please provide detailed answers for both.

- a. What does your organization believe is the most efficient mechanism the ISO could utilize for cost effective backstopping flexible capacity resources?

Response: *CESA expresses to opinion as to the best response to this question at this time.*

- b. In some cases, the ISO may have the option to choose from a variety of different resources to offer a flexible capacity procurement award. How should the ISO balance the operational attributes of different resources? For example, the ISO may need to choose between a resource that fits in one flexible attribute category at one price and another resource that fits in two flexible attribute categories at a slightly higher price. Another question would be for resources that both provide the same type of flexibility, but one resource has a faster ramp rate than another resource.

Response: *The ISO should more clearly define the product so that flexibility is clearly quantifiable and comparable across resources. For example, frequency regulation has traditionally been measured in units of megawatts, referring to the amount of generation capacity that has been reserved for ramping over short periods of time. But MW alone masks the underlying need, which is more appropriately measured in units of MW/min, as outlined in Table 2 of the Issue Paper. As part of the stakeholder process, CESA recommends development of appropriate flexibility metrics as well as methodologies for comparing diverse resources.*

- c. How should the ISO address partial unit procurement?

Response: *CESA's view is that this question is best addressed in the context of pay for performance compensation.*

7. The ISO believes that the capacity price and cost allocation are two core components of any backstop procurement mechanism. When responding to these questions, please focus your responses on the two types of flexible capacity awards that are being considered in phase one of this initiative (i.e. responses need not address cost allocation to be covered under phase two of this initiative).

- a. What is a just and reasonable compensation for flexible capacity procured to remedy LSE deficiencies in meeting LRA flexible capacity requirements?

Response: *CESA defers to others as to the best answer to this question.*

- b. What is a just and reasonable compensation for flexible resources at risk of retirement in the next five years that are determined to be needed? Responses should include discussion of both the price and payment schedule for resources the ISO identifies as needed three years into the future and beyond. For example, is a multi-year payment or just a single, year-by-year payment most appropriate?

Response: *Eligibility for annual or multi-year payments should not be limited to existing resources at risk of retirement. The same payments should be available to new resources as well.*

- c. What remedies should the ISO have in place should a resource that receives a flexible capacity procurement award not be available during the procurement term?

Response: *Remedies for non-performance should be consistent with remedies provided throughout the ISO's tariff.*

- d. If a resource that receives a flexible capacity procurement award subsequently signs a RA contract during the procurement term, should the ISO have a

mechanism to recoup some or all of the resources flexible capacity procurement award?

Response: *CESA expresses no opinion as to the best answer to this question.*

- e. The ISO has stated that is important allocate the costs of backstopping flexible capacity procurement to the entity that causes the ISO to use its backstop procurement authority. As such, how should the ISO allocate costs for flexible capacity procured to remedy shortfalls in LRAs flexible capacity requirements in phase one of this initiative? Please provide any details as to the possible methodology to perform this allocation.

Response: *CESA expresses no opinion as to the best answer to this question.*

8. How should the ISO allocate costs for flexible resources at risk of retirement in the next five years that are determined to be needed? Responses should include discussion of how costs might be properly allocated to load and/or generation as well as means to determine the allocation

Response: *CESA defers to others as to the best answer to this question.*

9. What performance obligations should hold for resources that receive a flexible capacity procurement award (i.e. must-offer obligation, no self-scheduling)?

- a. Should flexible capacity procurement awards be voluntary for the awarded resource or mandatory?

Response: *Depending on the terms and conditions, it would appear that performance should be mandatory once an award is made.*

10. Does your organization have market power or gaming concerns associated the backstop procurement authority the ISO seeks through this initiative? If so, please describe your concerns and possible means to resolve these concerns.

Response: *CESA does not have significant market power or gaming concerns with the proposal as it stands.*

11. Please comment on any other issues not previously addressed that your organization feels the ISO must address as part of phase one of this initiative.

Response: *CESA's view is that [TBD].*