BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements and Establish Annual Local Procurement Obligations

R.11-10-023 (Filed October 20, 2011)

COMMENTS OF THE WESTERN POWER TRADING FORUM IN RESPONSE TO THE PHASE 2 SCOPING MEMO AND RULING

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Pursuant to the schedule set forth in the December 6, 2012, Phase 2 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge ("Scoping Memo") in this proceeding, the Western Power Trading Forum ("WPTF")¹ provides these comments addressing the Joint Parties Proposal² in Attachment A and the related questions pertaining thereto that were contained in Attachment B to the Scoping Memo. Although the Scoping Memo originally provided for these comments to be due on December 20, 2012, an e-mail extension to this date was granted by Administrative Law Judge Gamson on December 19, 2012.

I. OPENING REMARKS

WPTF's comments are set forth from the perspective of market participants that are active in ongoing matters at the CAISO and this Commission dealing with resource adequacy ("RA")-related matters. Our intent is to highlight issues and improvements that are required to increase the efficiency and effectiveness of the RA program so that it can achieve its intended

¹ WPTF is a California non-profit, mutual benefit corporation dedicated to enhancing competition in Western electric markets in order to reduce the cost of electricity to consumers throughout the region while maintaining the current high level of system reliability. WPTF actions are focused on supporting development of competitive electricity markets throughout the region and developing uniform operating rules to facilitate transactions among market participants.

² See October 29, 2012, Resource Adequacy and Flexible Capacity Procurement Joint Parties' Proposal, sponsored by the California Independent System Operator Corporation, ("CAISO"), San Diego Gas and Electric ("SDG&E"), and Southern California Edison ("SCE") (the "Joint Parties Proposal").

aim. In considering the issues in this proceeding, our starting point is the Commission's stated goal for the program:

First, the Commission seeks through RAR to ensure that the infrastructure investment required for reliability actually occurs. Second, the Commission seeks to ensure that the generation capacity made possible through that investment is available to the grid at the times and at the locations it is needed. Third, the Commission intends that capacity must be sufficient for stressed conditions, i.e. sufficient generation should be available under peak demand conditions even when there are unexpected outages.³

Achieving these goals will require a cooperative effort among staff, utilities and all other parties. It is therefore extremely important that the Commission establish priorities and proceed

accordingly.

II. COMMENTS

WPTF offers the following comments in response to certain of the Scoping Memo Attachment B questions. We do not respond to each question but reserve the right to address the issues discussed therein in future workshops or written comments. As a result, the number below is at times non-sequential.⁴

A. Reliability Risk

1. What is/are the most critical grid reliability risk/risks that should be evaluated and managed through the flexible capacity procurement initiative?

As a general comment, it needs to be pointed out that the CAISO has yet to complete its studies as to how grid operations will be affected by increasing amount of renewable generation. WPTF believes that the CAISO should take the lead, but work cooperatively with the Commission and the California Energy Commission ("CEC"). These cooperative efforts will

³ D. 05-10-042, at pp. 7-8

⁴ It is important to note that at its stakeholder meeting on December 20, 2012, CAISO announced that it intends to also pose a series of questions about its proposal to stakeholders for comments. Those questions have not yet been released by the CAISO, but WPTF expects that both sets of issues and responses will need to be integrated.

hopefully lead to consensus as to the manner in which the requirements will be imposed on market participants in order to promote competition and reduce costs.

More specifically, the inability to ramp generation to follow changes in load or in the output of other generation (e.g., intermittent variable generation) could cause the CAISO to violate mandatory reliability standards that require a Balancing Authority Operator to control Area Control Error (e.g., BAL-002).

2. This proposal attempts to address reliability risk by recommending that the CPUC establish a monthly interim flexible capacity obligation that is based on the ISO's identified flexible capacity needs.

a. Identify the key tasks required to implement this proposal. Propose the order in which they should be addressed, and discuss whether they should be taken up simultaneously or sequentially.

The key tasks are to (1) to establish the methodology for how to determine the need for flexibility; (2) to set rules (technology-indifferent, to the maximum extent possible) for how resources count towards meeting this requirement; (3) define the requirements that will be applicable to each load-serving entity ("LSE"); (4) establish how LSEs will gain access as to the amount of flexible capacity that can be provided by RA eligible generating units; (5) develop rules that are applicable in the event of inadequate flexible capacity available in the market and how LSE obligations will be adjusted to reflect this; and (6) establish administrative process through which it can be determined whether the flexibility requirement is met, including rules dealing with non-compliance, cure periods and other administrative procedures.

As a general comment, WPTF believes that flexible capacity requirements should not be a permanent element of the RA landscape for the indefinite future. The development of additional biddable ancillary service products are needed in order to provide the ramping, load following, and regulation services that are critical to reliable grid management. The CAISO should work to develop these additional ancillary service products for integration within in its

day-ahead and real-time dispatch algorithms.

b. Can the difference between load and net-load be met partially by introducing curtailment provisions in renewable contracts (particularly solar resources)? What are the implications of doing so?

Potentially, if the change in net load is a decrease in net load However, increases in net

load cannot be met by curtailing renewable resources.

c. What are other options to alleviate the underlying reliability risk(s) (e.g. modified bidding behavior, incentives within procurement programs to procure resources that reduce identified reliability risks)? What are the benefits and drawbacks of addressing reliability risk by developing a flexible capacity obligation for LSEs relative to the alternatives?

Reducing the amount of self-scheduling will not change the physical amount of ramping capability that is available, but it will mitigate some of the financial impacts of running out of ramping capability. Creating a flexible capacity obligation will increase the complexity of the current RA program, but seems a necessary complication to create a mechanism to meet the increasing ramping needs projected by the CAISO. However, as noted above, a flexible capacity requirement should be considered to be an interim rather than permanent element of the RA program. WPTF believes that the various categories of flexible resources are in order to manage the variability of load in real time and thus can be structured as ancillary services. New biddable ancillary services could provide both generators and LSEs with clear and transparent price signals that will ultimately be more efficient than simply embedding flexibility requirements in the RA program.

d. In addition to addressing reliability risk, does the flexible capacity obligation have other market impacts?

Both competitive wholesale and retail markets will be significantly impacted by the manner in which flexible capacity obligations are implemented by the Commission and CAISO.

Given the dramatic growth in renewable resources as a fundamental element of the utility and non-utility LSE supply portfolios, it would be easy to look at flexibility in isolation. This approach will ultimately be unsatisfactory, however, as the Commission and stakeholders also need to be mindful of what is required to further California's competitive market and the Commission's commitment to it. WPTF suggests that any consideration of flexible capacity requirements has to be framed with attention to the critical question of "how will each proposal under consideration affect the strength, depth and viability of California's competitive retail and wholesale markets?"

e. How does this type of proposal, as compared to others, satisfy the Guiding Principles as set forth in the August workshop? (See Draft Guiding Principles in the Appendix to these questions)

The guiding principles contained with the Scoping Memo are as follows:

1. The Flexible Capacity Procurement initiative should be administratively simple. It should not impose an unnecessary administrative burden on the regulator, load serving entities (LSEs), or market participants.

WPTF believes the Joint Parties' Proposal will meet this principle, so long as it is viewed

as an interim step to a more competitive market approach, as discussed above.

2. The Flexible Capacity Procurement initiative should result in minimal disruption to the RA program.

Until the flexibility constraint begins to bind (e.g., when the flexibility requirement will not be satisfied by the "normal" RA procurement), likely well beyond 2014, WPTF expects that this proposal will not disrupt the RA program. When the constraint begins to bind, the shift from a focus on capacity to a focus on flexibility will affect RA procurement, which will be a necessary shift. So while there will eventually be a disruption, as the procurement focus shifts, this is a necessary shift. Having the program in place well before the constraint begins to bind should help ensure that any disruption is necessary and minimal. 3. The Flexible Capacity Procurement initiative should be commercially feasible. Allowing the market to distinguish and value a megawatt of capacity with appropriately defined flexible characteristics from a megawatt of generic capacity will facilitate compliance and market liquidity.

The interim proposal defines flexibility in likely the simplest possible terms – as a binary characteristic. This definition should be adequate to implement the interim proposal, but may not be adequate as the need for flexibility evolves. WPTF expects that, as more experience is gained, the flexibility characteristics will evolve and there may be a need for greater differentiation of flexibility characteristics. Market liquidity may not be enhanced by splitting the value of these resources between the capacity payment and the payment to be made at the time the flexible resource is called on as a dispatchable ancillary service. The imposition of this sort of granularity on the RA obligations will make procurement more complex for all LSEs, especially non-utility ones such as electric service providers ("ESPs") and community choice aggregators ("CCAs").

4. The Flexible Capacity Procurement initiative should be dynamic and should be allowed to evolve with changing grid conditions.

The interim Joint Parties' Proposal is intended to be just that – interim – and satisfies this principle. However, transition to an ancillary services format for flexible capacity is called for, as discussed above.

5. The RA program should seek to maintain reliability while minimizing costs through market mechanisms.

It is highly likely that insufficient flexibility will affect reliability. WPTF strongly agrees that using market mechanisms to procure flexibility is the most appropriate way to minimize cost and provide adequate signals to meet these needs.

6. The definition of flexibility should be technology neutral and prevent discrimination against all current and future resources that have the required flexible characteristics.

The interim Joint Parties' Proposal meets this principle, with which WPTF is in strong agreement. However, a transition to a system in which flexible resource requirements are defined as biddable ancillary service requirements would help facilitate this objective.

7. The flexibility needs study should be transparent and consistent with CPUCapproved assumptions.

It is critical that the flexibility needs study be transparent. It is also critical for the CAISO and Commission to agree on the appropriate assumptions on which to base the study. The CAISO has the ultimate responsibility to maintain the reliability of the bulk power system under its operational control, and no one benefits from having the CAISO and Commission disagree as to the assumptions underlying the flexibility analysis.

WPTF supports the CAISO determining the flexibility need. However, the Joint Parties' Proposal calls for the CAISO to forecast the expected peak load for the month to determine the flexibility need. As WPTF understands, the CEC forecast of the monthly peak load is used to determine RA requirements. Therefore, it would be consistent to use the CEC's forecast to determine the flexibility requirement.

8. Flexibility procurement and valuation process should be conducted in a manner to ensure generator confidentiality.

There needs to be a balance between generator confidentiality and transparency in the marketplace as to which generation units are capable of providing flexible capacity. WPTF supports both of these goals and think they need to be resolved concurrently. Also, confidentiality might actually be enhanced if biddable ancillary services were available in the CAISO markets.

9. The responsibilities of the ISO, the CPUC, and LSEs should be clearly defined.

WPTF agrees. The roles should not be simply clearly defined, but, as noted above, the roles must also be well coordinated. Having the CAISO and CPUC (and perhaps even the CEC) implement a Memorandum of Understanding with regards to their respective roles in this process might help ensure roles are clearly defined and coordinated. It is also critical to ensure that there are no variances between the Commission's and the CAISO's rules so that neither generators nor LSEs get caught between conflicting directives.

10. The rules for generator valuation and LSE allocation should be transparent, consider how to promote efficient procurement, minimize market power opportunities, reward existing flexible resources, and incentivize the appropriate resource mix that results in the type and location of resources that are needed to maintain grid reliability.

The Joint Parties' Proposal may not accomplish all of these goals upon implementation.

However, the interim proposal will lay a foundation for market participants to gain experience with meeting flexibility requirements and will help in building a durable framework that will accomplish these principles.

B. Interim RA solution (Section 2)

3. The proposed flexibility procurement initiative institutes an interim RA solution for 2014-2017. What are the anticipated impacts of an interim approach on resource adequacy contracts? What factors should the CPUC consider in deciding whether an interim approach is appropriate?

WPTF expects that the most likely impact on RA contracts of implementing an interim flexible capacity obligation is that the RA contracts will have to expressly identify how much flexible capacity a resource is capable of providing. Without this sort of guidance, LSEs will be adrift and unable to ascertain how to focus their procurement efforts. Also, the Commission needs to give serious consideration to whether implementation of a flexible capacity regimen is needed as soon as 2014. The need for flexible resources is still in the process of being defined and the Commission must ensure that any interim approach will complement and not conflict with continuing efforts to modify the existing market structures for energy, ancillary services, and capacity, to ensure transparency and to facilitate market liquidity. WPTF also suggests that if a flexible capacity program is implemented on an interim basis (whether in 2014 or later) that there should be a clear sunset date specified, such as three years, by which the Commission will transition to having the flexible requirements be implemented as biddable ancillary services.

4. Should the flexible capacity start in 2014? Explain why or why not.

WPTF believes it is possible to begin including flexibility requirements into the RA program in 2014 using the interim manner proposed by the Joint Parties, but that this date should not be considered mandatory. As noted in the previous answer, it is critical that the Commission coordinate this effort with other market structure reforms. If the need for operating flexibility is to become a dominant requirement and constraint on RA procurement, it is better to implement that requirement before the increasing penetration of renewable resources and the associated need for flexibility substantially affect RA procurement and operations. However, it should be done so as an interim measure, with a three-year sunset date, as this will allow both generators and LSEs to become familiar with this constraint in both operating practice and contracting practice. The experience gained will provide for a smoother and less abrupt transition when the requirement starts to bind (i.e., affects procurement).

C. Development of Eligibility and Needs Methodology (Section 3.1 and Section 3.2)

5. According to the proposal, "flexible capacity need" is defined as the need of the ISO to meet ramping and contingency reserves. (Section 3.1)

a. Is this an appropriate definition of flexibility? If not, please explain what might be an appropriate definition and why.

Yes.

b. Should flexible capacity needs encompass all of the contingency reserves (E.G. Spin, Non-spin, Regulation up/down)?

The flexibility need should encompass all of the contingency reserve need, but need not encompass the regulation need, assuming the maximum ramp is appropriately sized. WPTF notes that Sections 3.1 and 3.2 of the Joint Parties' Proposal acknowledges the similarity between flexible resource requirements and existing spin, non-spin, and up/down regulation that exists in CAISO's ancillary service markets. As these markets already exist and function well, it would not be advisable to include spin, non-spin and up/down regulation in the new flexible capacity rules that are ultimately adopted.

6. Flexibility needs are calculated according to the following formula (Section 3.2)-Flexibility NeedMTHy= Max[(3RRHRx)MTHy]+ Max(MSSC, 3.5%*E(PLMTHy)) + ε Where,

Max[(3RRHRx)MTHy] = Largest three hour contiguous ramp starting in hour x formonth y<math>E(PL) = Expected peak loadMTHy = Month yMSSC = Most Severe Single Contingency $\varepsilon = annually adjustable error term to account for uncertainties such as load following$

a. Is the above formula an appropriate measure to calculate flexibility needs and why?

WPTF believes that the formula should include the entire contingency reserve

requirement – i.e., the 3.5% figure in the formula should be replaced by 7%.

- E.G. The ISO included the max of either a 3.5% of monthly expected peak load (EPL) or Most Severe Single Contingency (MSSC) factor to the need calculation. This is supposed to ensure that the ISO gets 100% of spinning reserve capacity needed to cover the MSSC.
 - What evidence supports using a 3.5% of EPL to provide the spinning reserve needs in an N-1 contingency?

Under current rules, the CAISO must procure an amount of contingency reserve no less than the greater of (1) the sum of 5% of load served by hydro generation and 7% of the load

served by thermal generation, or (2) the MSSC. Furthermore, by rule, half of that contingency

reserve must be spinning reserve. WPTF presumes that the 3.5% figure in the Joint Parties' proposal is intended to provide the most conservative estimate of the needed amount of spinning reserve - if all load was being served by thermal generation.

• Is it reasonable to require spinning reserves equal to 100% of MSSC? Please explain.

No. Under current NERC rules, the CAISO does not need to procure all of its contingency reserve as spinning reserve. However, it is reasonable to require that the amount of flexibility need be at least equal to the MSSC - in addition to the amount needed to cover the three-hour ramp. This is because a contingency equal to the MSSC (as approximated by the 5% of load served by hydro generation (7% of load served by thermal generation) could occur during the three-hour ramp.

b. According to the proposal, flexible capacity need is based on how much ramp capability a resource can offer and sustain over a continuous three hour period. Is three hours an appropriate duration in which to measure ramping? Support your answer with empirical data when possible.

WPTF supports this aspect of the Joint Parties' Proposal. The CAISO's net load curve (page 5, Figure 1) demonstrates that the system's most severe ramping need occurs across the period in the late afternoon when load is steady or increasing, and photovoltaic resources' output is decreasing as the sun angle decreases. This period, which appears to begin in hour 16 and end in hour 20, appears to be at least three, and may be four, hours long. As such, this is an appropriate duration.

c. Is adding an annually adjustable error to ramping requirements term to account for uncertainties appropriate?

Yes.

• Should the error factor be capped? If so, what is an appropriate cap level and why?

The error factor could be capped at two or three times the largest error in monthly peak demand forecast experienced over the last ten years, expecting that demand forecast accuracy is increasing, not decreasing.

• What criteria should be stipulated to provide appropriate boundaries on what can be included in the error factor (i.e. proportion of wind generation, or distributed generation)?

As noted above, the factor in the proposed formula that is most likely to be inaccurate is the load forecast. Therefore, the error factor should be based on a reasonable expectation of load forecast error.

e. It appears flexible capacity procurement is overlapping with the determination of operating reserves. Is this appropriate? Can some amount of the PRM be offset, and how can the CPUC manage the overall RA obligation if portions are met with more flexible resources?

The PRM ensures adequate physical supply to cover expected peak demand, accounting

for things like demand forecast error and forced outages. Meeting some of the RA needs through more flexible resources likely provides for a more reliable system overall, but does not, in and of itself, allow for reductions in the PRM. It is important that the definition of the new flexible resource requirement that is ultimately adopted does not overlap or duplicate existing contingency reserve requirements or the existing Planning Reserve Margin. It is important for both generators and LSEs that the reliability metrics are carefully designed to ensure that that there are no duplicative requirements that might increase costs for ratepayers.

7. What process(es) or proceeding should be used to calculate capacity flexibility needs as load and supply change over time?

b. Who should determine flexibility needs annually- the ISO or some other third party?

The CAISO seems ideally suited to determine the flexibility needs, as it has both the data and the analytical expertise.

E. Flexible Capacity Must-offer Obligations (Section 4)

9. In addition to the must-offer obligations that currently apply to RA resources, the flexible capacity must-offer obligation for flexible resources would require resources to submit economic bids into the ISO's real-market between a predetermined set of hours (i.e. 5 AM to 10 PM).

a. What is the impact of this more stringent must-offer obligation for flexible resources on specific resources?

As WPTF understands it, the CAISO is no longer proposing to implement a must-offer obligation for resources that satisfy the flexibility need as described in the Joint Parties' Proposal for 2014. WPTF supports this decision for several reasons. First, how the must-offer obligation would apply to use limited resources has not yet been fully developed. This is an important and likely contentious issue that WPTF believes will take some time to work through - more time than is afforded by the schedule that would call for a proposed decision on this matter in May or June 2013.

Second, while WPTF believes that the current levels of self-scheduling detract from overall market efficiency, and can produce extreme and confusing market results, and generally agrees that a resource that is providing flexibility should be required to submit an economic bid, WPTF reluctantly notes that some level of self-scheduling is still necessary under some conditions to protect resources from adverse outcomes from the CAISO's market optimization. Until market participants are fully confident in the results of the CAISO's optimization, prohibiting self-scheduling from resources providing flexibility will prove a difficult pill to swallow.

d. Can this risk be alleviated partially by incentivizing resources with Must-Offer Obligations to submit economic bids in the ISO market instead of self-scheduling? What changes could be contemplated within regulatory proceedings at the ISO and the CPUC, to make it conducive for resources to submit economic bids instead of self-scheduling their energy? WPTF supports a thorough examination of self-scheduling to identify why parties engage in that practice. Those results should suggest courses of action that the CAISO could take to reduce the need for or desire to self-schedule. This would be a very useful exercise to engage in prior to prohibiting self-scheduling from resources providing flexibility.

F. Eligibility (Section 5.1)

10. According to the proposal, a resource must be able to ramp and sustain energy output for a minimum of three hours to qualify as flexible. Is this a suitable condition to determine eligibility for flexible resource? (Section 5.1) Please explain why or why not.

This is a conservative, but not unreasonable, condition, given that the ramp of concern is at least three, and may be four, hours in duration. This condition should be revisited as part of the discussion about how energy-limited resources can meet the flexibility obligation and the nature of the must-offer obligation that will be applied to resources that meet the flexibility obligation.

11. Is the ISO proposed mechanism to modify the resource's master file to note flexible capacity as "dispatchable" appropriate? Please explain why or why not.

Parties strongly objected to the CAISO's previous proposal to differentiate flexibility into three categories: regulation, load following, and maximum ramp. The Joint Parties' Proposal to assign "dispatchability" as a binary characteristic as an interim measure is far less complicated and seems reasonable.

G. Flexible Counting Conventions (Section 5.3.2)

14. Joint parties evaluated three options for counting how a resource's flexible capacity quantity would satisfy a flexible capacity procurement obligation. The three options are: 1) Pro-rata Option: Pro-rata sharing of flexible and generic capacity; 2) Differentiated Capacity Option: Distinguish flexible capacity from generic capacity; and 3) Count-all Option: Count all capacity from "dispatchable" generators as flexible.

a. Which option do you think is better and why? (Section 5.3.2)

WPTF supports the differentiated capacity approach.

15. Please comment on the proposed counting conventions for -

a. Non-use limited thermal resources (Section 5.3.3.1)

i. The proposal states that resources with start-up times greater than 90 minutes would be eligible to offer flexible capacity between PMin and NQC. Is 90 minutes an accurate threshold for startup time? What resources would be at an advantage or disadvantage if this threshold was adopted?

ii. What would be the impact on flexible generators with slightly longer startup time (120 minutes – 180 minutes)?

b. Use-limited thermal resources (Section 5.3.3.3)

WPTF is concerned about one aspect of the Joint Parties' Proposal related to use-limited resources, namely, the proposal that when a resource reaches its use limits, it no longer can count as flexible capacity and is subject to replacement obligations and to Standard Capacity Product non-availability penalties.⁵ While the proposal notes that, "Further, as is the case today, use-limited resources will have the opportunity to place economic bids that reflect the cost (including opportunity cost) of each dispatch, in addition to listing a resource as flexible in any given month," some WPTF members' experience suggests that bidding in a particular manner may not affect how much a resource is operated, especially if that resource is exceptionally dispatched. Moreover, bidding projected opportunity cost may be perceived as economic withholding. Much flexibility can be provided from use-limited resources, and it is reasonable to include some restrictions on that provision. However, the topic of acquiring flexibility from use-limited resources and the offering obligation that would attach to such resources is complex and requires much more discussion.

16. In order to increase transparency over RA capacity procurement, what data could be made public within confidentiality restrictions?

a. What constraints should be imposed on sharing data such as ramp rate, PMin, PMax, or other values that may be considered confidential?

- b. What are the best options to resolve disclosure concerns?
- c. What tariff or BPM rules restrict data release?

⁵ Joint Parties' Proposal, at p. 21.

As a very general comment, WPTF notes that it will be important for the Commission's adopted rule to provide transparency with respect to what portions of a resource's RA-approved NQC will be capable of being counted toward the various flexible resource attributes.

17. Should there be different qualitative and quantitative metrics of flexibility for demand response and storage resources?

No. While these resources should be allowed to provide flexibility, they must be able to do so within whatever rules are established for other types of use-limited resources.

H. General

18. What are the specific impacts of the flexible capacity procurement initiative on procurement and contracting on Community Choice Aggregators and Electric Service Providers?

A flexible capacity requirement embedded in the RA program will increase the challenges and costs that ESPs and CCAs face in meeting their RA obligations, especially for entities that have small amounts of load in constrained areas. Therefore, while the flexible capacity requirements are included in the RA procurement obligations, there must be market rules that address what will happen to an ESP or CCA (or any LSE for that matter) who is unable to procure the required resources, including the process for securing a waiver, and any penalties that will apply for non-compliance. Finally, WPTF notes that its recommendation to incorporate flexible capacity requirements into CAISO's ancillary services markets as opposed to superimposing it on the existing RA structure would be far more beneficial to retail competitive markets in general and ESPs and CCAs in particular.

II. CONCLUSION

WPTF believes that Phase 2 of this proceeding has the potential to improve reliability significantly, while at the same time advancing important Commission policies on wholesale and retail competition. This can lead to significant benefits to electricity customers throughout the state. WPTF respectfully submits these comments and requests that the Commission adopt the recommendations contained herein.

Respectfully submitted,

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