

## **Reliant Energy Inc.'s Reliability Backstop Proposal**

### **Comments Regarding the CAISO Whitepaper**

The Resource Adequacy Requirements of the CPUC are currently the first line of offense to ensure that the CAISO has sufficient capacity to meet its reliability needs. A proper backstop mechanism should be rarely used in light of the CPUC's Resource Adequacy ("RA") program but, if it is, should support and not interfere with forward contracting of RA capacity. Arbitrary pricing and after-the-fact designations (i.e., after an event or events have occurred) fail to achieve the goal.

The CAISO will need to file at FERC a replacement backstop mechanism to be effective January 1, 2008 – to align with the cessation of existing RCST provisions and to support the CPUC's 2007 RA showings for calendar year 2008. The CAISO could first procure any necessary backstop capacity in advance of January 1, 2008 after the LSEs announce their RA plans. The CAISO would also be able to procure backstop capacity, if needed, during the calendar year 2008 and thereafter until a centrally-cleared capacity market is implemented. Any designations during a calendar year should also be based on the CAISO's expected balance of loads and resources for the system and local areas. With this approach, the CAISO arranges adequate capacity to meet and withstand the new forecasted conditions and potential contingencies.

Reliant supports the replacement of the existing RCST mechanism with one that fixes the most significant of identified deficiencies.<sup>1</sup> The replacement should serve as a Resource Adequacy Backstop Service Tariff ("RABST").

Generator compensation for the RABST should be based on a real proxy generating unit and not a hypothetical unit with theoretical operating characteristics. For example, the utility-build peaking units currently under construction in California at this time could serve as the basis for the real proxy unit for purposes of pricing the RABST. Generating units that the CAISO procures under the replacement backstop should be paid a price based on the annual levelized cost per megawatt of the last generating unit of capacity added to the relevant region. Since no

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<sup>1</sup> Among the deficiencies of the current RCST, as it is being implemented by the CAISO, are:

1. Proxy values of capacity that do not reflect the real, and demonstrable, cost of installing the last generating unit of capacity in the relevant region and that, in turn, interfere with forward bilateral capacity markets.
2. Failure to commit needed resources on a forward basis that are not procured as part of the existing CPUC Resource Adequacy program.
3. Fractional after-the-fact payments, instead of forward term payments, for capacity.
4. Ambiguous designation procedures that might be, at best, applied sometime after one or a number of reliability events have occurred.
5. Generating unit availability metrics that are inconsistent with existing CPUC Resource Adequacy criteria.

supplier can demand more than the proxy value of backstop capacity no supplier is able to exercise market power.

RABST designations should be for one year. A generating unit designated at any time after the start of a calendar year, such as mid-year, should be paid the annual value of the real proxy unit and not some portion thereof since the real proxy unit's annual costs are not pro-rated.

RABST is not a call option but, rather, capacity that is required to schedule or offer energy or ancillary services for the term of the designation and should be treated equally with RA resources under the CAISO tariff. The performance/availability criteria should be consistent with the CPUC's 12/31/05 guidance memorandum regarding LSE Resource Adequacy Requirement (page 6 of memorandum). The guidance memorandum sets forth the following criteria:

*Summer (May through September). Any month where days of scheduled outages exceed 25% of days in the month, the resource does not count for RA. If scheduled outages are less than or equal to 25% the resource does count for RA.*

*Non-Summer Months (October through April): For scheduled outages less than 1 week, the resource counts for RA. For scheduled outages 1 week to 2 weeks, the amount counted for RA is pro-rated using the formula:*

$$[1 - (\text{days of scheduled outage} / \text{days in month}) - 0.25] * MW = RAR.$$

*The formula will allow resources to count between 50% and 25%. For scheduled outages over 2 weeks, the resource does not count for RA.*

In addition, generating units should not be penalized twice for unforced outages, e.g., during the performance year through a payment reduction and in the following year as an adjustment to EFORd/UCAP.

The RABST can serve as the successor backstop mechanism in the CAISO's transition away from RMR commitments. However, the overhaul of the existing RMR processes should occur on a separate and parallel path with the development and implementation of the RABST. RMR is currently a component of CAISO's market power mitigation and, as discussed herein, RABST can serve as the successor mechanism in combination with the other components of CAISO market power mitigation.