

**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 and Flexible Procurement  
Obligations for the 2019 and 2020  
Compliance Years.

Rulemaking 17-09-020  
(Filed September 28, 2017)

**REPLY COMMENTS ON PROPOSED DECISION OF  
THE DEPARTMENT OF MARKET MONITORING OF  
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The Department of Market Monitoring (DMM) of the California Independent System Operator Corporation (CAISO) submits these reply comments on the *Proposed Decision Refining the Resource Adequacy Program*, filed November 21, 2018. In these reply comments, DMM responds to several points raised by other parties in opening comments on the Proposed Decision (PD) by providing additional detail and clarification of issues discussed in DMM's opening comments.

**Applicability to Publicly Owned Utilities**

In response to the California Municipal Utilities Association (CMUA) comments on the PD, DMM would like to clarify DMM's comments on the CAISO's Resource Adequacy Enhancements initiative referenced by CMUA.<sup>1</sup> DMM recognizes that Publicly Owned Utilities (POUs) are not subject to CPUC procurement jurisdiction and presumes that POUs would not be subject to the procurement framework outlined in the PD. Therefore, the proposed central buyer (CB) would only procure RA capacity on

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<sup>1</sup> *California Municipal Utilities Association Comments on the Proposed Decision Refining the Resource Adequacy Program*, December 11, 2018, p 2-3, citing the following comments by DMM:  
*Comments of the CAISO Department of Market Monitoring on Resource Adequacy Enhancements*, November 30, 2018, p.3. <http://www.caiso.com/Documents/DMMComments-ResourceAdequacyEnhancements-IssuePaper.pdf>

behalf of all *CPUC-jurisdictional* LSEs in a Transmission Access Charge (TAC) area and would not procure RA capacity on behalf of “all load” or “all LSEs” in a TAC area. DMM agrees with CMUA that terminology used in any final decision should be clear that the proposed procurement framework would not apply to a POU in a TAC area whose procurement is subject to rules governed by its own Local Regulatory Authority (LRA).

### **Addressing local market power**

The CAISO recommends that the Commission disaggregate local and sub-area procurement requirements instead of keeping sub-areas aggregated to mitigate market power concerns.<sup>2</sup> DMM agrees that such aggregation simply masks (rather than mitigates) structural local market power due to sub-area procurement requirements. However, since these sub-area requirements are well known, the CB can and should take these into consideration when procuring capacity to meet local area requirements.

The CAISO also suggests that, “the Commission should put in place cost-of-service procurement to address market power concerns,” but does not provide any further details of such cost-of-service procurement.<sup>3</sup> DMM believes that the CAISO’s existing Capacity Procurement Mechanism (CPM) and Reliability Must Run (RMR) provisions should serve as an important role in mitigating local market power of capacity in Local Capacity Areas, but that the CAISO’s current CPM and RMR compensation provisions are flawed and should be modified.<sup>4</sup> Changes to these provisions being

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<sup>2</sup> *CAISO Comments on Proposed Decision*, p. 2.

<sup>3</sup> *Ibid*, p. 2.

<sup>4</sup> *Comments by Department of Market Monitoring on RMR and CPM Straw Proposal*, August 17, 2018.

<http://www.caiso.com/Documents/DMMComments-ReviewofReliabilityMust-RunandCapacityProcurementMechanism-StrawProposal.pdf>

considered by the CAISO have not been finalized or implemented. As noted in DMM's comments on this CAISO initiative, paying resources with market power more than would be received in a competitive market rewards (instead of mitigates) market power, can distort investment decisions, and can undermine the RA procurement process.<sup>5</sup> Thus, DMM believes that it is premature to require the CB to offer cost-of-service procurement, and recommends that the CPUC continue to work with the CAISO and other stakeholders to address this issue through the CAISO's CPM and RMR initiative and future RA proceedings.

### ***Dispatch Rights***

While the PD makes procurement of dispatch rights by the CB optional, acquisition of dispatch rights can also increase market efficiency and mitigate market power in the energy markets by ensuring units are bid competitively or pursuant to least cost dispatch. As noted by Pacific Gas & Electric (PG&E), the goals of market power mitigation and market efficiency may also be achieved by contract terms other than a full tolling agreement. For example, contracts could require sellers to limit bids in the CAISO markets based on specific price and/or heat rate caps.<sup>6</sup> DMM agrees that the PD should provide flexibility in terms of how the CB may include contractual provisions that help to ensure market efficiency and market power mitigation.

DMM's prior comments in this proceeding noted that the Commission could consider an option for the central buyer to auction procured dispatch rights to entities who value those rights the most.<sup>7</sup> DMM recognizes that it is too late in the process of

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<sup>5</sup> *Ibid*, p. 2.

<sup>6</sup> *Comments of PG&E on Proposed Decision*, p. 15.

<sup>7</sup> *DMM Comments on Proposed Decision*. p. 3.

this proceeding to develop a robust design for a potential dispatch rights auction. DMM is raising the idea as a possible future option that could address some issues with the full procurement central buyer model. DMM suggests consideration of this as a future option (not a requirement) that might in some cases improve the efficiency of the central buyer model. The details of how any such auction might be employed to transfer dispatch rights would need to be carefully worked out by stakeholders and CPUC staff.

For example, it would be necessary to be able to determine a reservation price that reasonably reflected the value of the dispatch rights being auctioned. Moreover, any auction design should consider whether or not there is sufficient competition amongst LSEs in the auction process, and under what conditions it may be appropriate to auction the dispatch rights to entities that do not serve a substantial quantity of load. When an LSE (or central buyer) manages a resource's dispatch rights under least cost dispatch principles, this serves as an important form of market power mitigation in CAISO's spot markets.

DMM recognizes that energy dispatch rights procured in the near term by a central buyer may be associated with resources whose attributes may not be valued by LSEs or that may introduce additional costs to LSEs (e.g. GHG-emission attributes and impacts to LSE Power Content Labels). Therefore, DMM understands that in the near term LSEs may prefer that contract attributes and costs associated with dispatch rights be allocated among LSEs by the CB. .

However, in a long-term procurement framework, some new contracts will likely be signed with carbon-free and flexible resources, such as storage, whose contract attributes and market revenues will be valued by LSEs. Auctioning some of these

energy rights to the entities that value them most could result in more efficient operation of contracted resources in CAISO's markets compared to leaving a central buyer, or contract provisions between a central buyer and supplier, to determine how these resources should be operated. In practice, the option of transferring dispatch rights through an auction might be most feasible and effective in cases of new carbon-free resources, such as battery storage resources, rather than the existing fleet of resources. Thus, while DMM is not recommending that the Commission include a dispatch rights auction in its decision in this proceeding, DMM suggests this be considered as a future option that might in some cases improve the efficiency of the proposed multi-year central buyer framework.

Respectfully submitted,

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