

Submitted By	Company	Date
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Commitment Cost Mechanism

The recent gas events in December 2013 and February 2014 bring to light the significant problems with the CAISO’s commitment cost bidding and cost recovery mechanisms. Neither the proxy cost option nor the registered cost option provided protection for suppliers when gas price spiked. As a result, there is an urgent need to re-visit and restructure the CAISO’s commitment cost mechanisms. While there is no commitment cost initiative currently listed in the catalog, NRG strongly urges the CAISO to create and launch such an initiative as soon as possible.

Voltage Support

NRG remains confused at the CAISO’s refusal to move forward with a stakeholder process on voltage support. In Section 9.7 of the Catalog, the CAISO curiously does not classify voltage support procurement as FERC-mandated:

Voltage support will not be re-classified as FERC mandated. FERC did not mandate an initiative to develop a market-based mechanism for voltage support, but rather stated that the ISO should evaluate such a mechanism.

The language from FERC’s June 11, 2013 order in ER13-1274 (143 FERC ¶ 61,228) regarding voltage support states (internal citations omitted):

20. We accept CAISO’s proposed change to section 8.3.4 based on CAISO’s claim that it currently has no process to certify resources to provide voltage support as an ancillary service. NRG does not disagree with CAISO’s proposed change to section 8.3.4. However, we note that in CAISO’s June 22, 2009 status report, CAISO stated that it would initiate a stakeholder process on the market-based procurement of voltage support outside of exceptional dispatch once it had obtained several additional months of data.³⁵ After nearly three additional years of market operation, we expect that CAISO has sufficient information to reinstate the stakeholder process on the market-based procurement of voltage support. If CAISO has new information suggesting that a long term solution for procuring voltage support outside of exceptional dispatch is no longer necessary, CAISO should file an updated report with the Commission.

It is clear from this language that FERC expected the CAISO to either “...reinstate the stakeholder process on the market-based procurement of voltage support” or file an updated report with the Commission suggesting that a long term solution for procuring voltage support is no longer needed. Instead, the CAISO is proposing to do neither. Given that the CAISO’s draft 2013-2014 transmission plan notes significant reactive power problems in Southern California (to the point that the CAISO recommends additional reactive power support at San Luis Rey,¹ Suncrest,² and

¹ Draft 2013-2014 Transmission Plan at 6, 95.

² *Id.* at 9.

Huntington Beach,³ the CAISO's unwillingness to move forward with the Commission's September 2005 order regarding voltage support or the Commission June 2013 recapitulation of that order is not supportable.

Again, while FERC did not direct the CAISO to implement market-based voltage support procurement, it is clear from the June 11, 2013 Order language that FERC expected the CAISO to "initiate a stakeholder process" to examine voltage support procurement.

Standard Capacity Product Enhancements

While NRG does not object to the CAISO including a discussion of certain proposed changes to the Standard Capacity Product (as discussed on page 8) in the Reliability Service Initiative, NRG understands that the CAISO does not plan to include consideration of applying SCP non-availability penalties to demand response in this initiative. As with voltage support, this appears to be the CAISO reading certain outcomes into the semantics of FERC orders and not complying with what appears to be the plain intent of a FERC order.⁴ Further, NRG understands (from the discussion at the February 4 Reliability Services Initiative meeting) that the CAISO does not intend to apply the SCP non-availability charges to certain demand response programs that currently provide nearly 3,000 MW of RA capacity. Again, this position has neither been fully explained nor justified, and NRG does not support it.

Extended Pricing Mechanisms

NRG does not agree that other initiatives (such as the Contingency Modeling Enhancements or Joint Reliability Framework) obviate the need to move forward with Extended Pricing Mechanisms. It is not apparent that the Contingency Modeling Enhancements initiative will decrease, rather than increase, the number of units committed at minimum load levels standing by ready to address contingencies. However, absent some mechanism like extended locational marginal pricing, these units will send no price signals about the value of and need for such resources. Additionally, NRG does not agree that the fact that this effort may take significant time and resources dilutes the value of this initiative or warrants its exclusion from consideration. The CAISO's Energy Imbalance Market – a wholly discretionary initiative launched by the CAISO – has consumed and is consuming huge amounts of CAISO and stakeholder resources. Such efforts may take time and resources, but that does not mean they are not worth pursuing, especially when they enable the CAISO's energy markets to provide valuable price signals that they currently do not provide.

³ *Id.* at 95.

⁴ 127 FERC ¶ 61,298 at P. 58 (emphasis added): "To be clear, we find the CAISO's proposal to exempt these resources to be just and reasonable and not unduly discriminatory because these issues are being addressed in ongoing CAISO and CPUC proceedings and the exemptions are, therefore, temporary. To that end, we direct the CAISO to work with stakeholders, the CPUC, and local regulatory authorities to determine when the proposed exemptions should ultimately sunset, **and the CAISO and stakeholders should diligently work toward a sunset in a timely manner.** In this regard, we direct the CAISO to post a biannual status report relating to the application of availability standards to all resource adequacy resources on its internet web site. The CAISO should post the first such report within 45 days of the date of this order. The reports will serve as a means for the Commission and market participants to monitor the progress of these efforts to sunset the exemptions and as the basis for the market participants and the Commission to determine if the efforts to sunset the exemptions are unreasonably delayed." (emphasis added).

Voluntary Preferred Resource Auction (12.9)

While the CAISO has indicated its intent to initiate the Voluntary Preferred Resource Auction initiative in Q1 (Section 12.9, page 11), it is not clear why this initiative has been categorized as “non-discretionary”. More explanation for that designation is needed. Additionally, the catalog still refers to a December 6 white paper, which was never issued – a December 6, 2013 market notice indicated the white paper was postponed.

General Process

The CAISO’s approach, as presented in the January 28 draft catalog, of not ranking individual initiatives, but instead laying out a roadmap indicating when the CAISO expects to begin certain initiatives (with all classifications – FERC-mandated, non-discretionary, and discretionary - mixed together), has brought this process to a point where the efficacy and value of the initiatives ranking process as it currently exists must be questioned.

There is value to a prioritization process (certainly more value than to just a ranking process). Some stakeholders and the CAISO have limited resources. Providing a forum in which market participants can indicate their value for certain initiatives has value in whole. Such a process, if it worked as intended, would prove much more constructive than having to press the CAISO to prioritize certain initiatives through other means. But the relationship between the ranking process and the proposed roadmap is not evident, nor is the rationale for the proposed road map.

NRG encourages the CAISO to broaden the discussion to talk about how to develop a better process rather than focusing everyone’s efforts to try to get this particular iteration of the process to a particular conclusion – a conclusion that seems to already have been reached. Such discussion, which could continue over the coming year rather than waiting for the next iteration of the ranking process to begin, would seem more fruitful than simply re-engaging this ranking process again in the fall.