

Memorandum

To: Market Surveillance Committee (MSC)  
California Independent System Operator (CAISO)

From: California Large Energy Consumers Association (CLECA)  
California Manufacturers and Technology Association (CMTA)

Subject: Opinion on “Interim Capacity Payment Mechanism under MRTU”

CLECA and CMTA are pleased to provide these comments on the above-cited MSC Opinion on the Interim Capacity Payment Mechanism (ICPM) under MRTU. CLECA and CMTA have previously submitted comments to the CAISO on the prior version of the ICPM. Those comments are available on the CAISO web site. Given the short response time, our current comments are necessarily brief.

As noted by the MSC, “Type 1 procurement occurs before the compliance year if a Load Serving Entity (LSE) or group of LSEs has not purchased the full amount of their local or system-wide Resource Adequacy Requirement (RAR) by the time of the required RA showing for that year. Type 2 procurement occurs during the compliance year if the ISO determines that a “Significant Event” has occurred that creates a need to supplement LSE-procured capacity within the year.” (MSC Opinion, p. 1)

CLECA and CMTA appreciate the modifications made by the CAISO staff to its ICPM proposal since the last version was presented. In particular, CLECA and CMTA feel strongly that basing pricing for ICPM Type 1 on the Cost of New Entry (CONE) for a product that is to be used only over the next year is inappropriate, since little or no new entry would be possible during such a time frame. Thus we take issue with the MSC’s statements that “CONE may be justified in some local areas” for Type 1 procurement” and “that ICPM procurements before the delivery year may provide incentives for more generation capacity to exist at certain locations in the ISO control area.” (MSC Opinion, p. 4)

We also have been concerned about the impact that pricing for a backstop product based on CONE would have on the price LSEs pay for Resource Adequacy (RA) capacity under the bilateral contract negotiations that are used to procure such RA capacity. The MSC clearly understands this concern, as seen in its statement that “[t]he ICPM backstop price is likely to function as an upper bound on the prices that LSEs will pay for RA capacity, particularly in local areas with adequate generation capacity but inadequate competition among generation unit owners to sell it as a reasonable price.” (MSC Opinion, p. 4) Indeed, in the latter cases, generators are likely to seek the ICPM price in order to engage in bilateral contracting with LSEs in the expectation that otherwise they can get this price from the CAISO through its backstop procurement.

We strongly agree with the MSC that LSEs that the CAISO finds fail to meet adequately RA requirements should be given a chance to correct their deficiencies under direction of the California Public Utilities Commission (CPUC). However, we do note that it is not the CPUC that procures the capacity but rather the CPUC that has imposed the RA obligation on the LSEs, where the latter do the procurement. We would agree with the MSC that CAISO Type 1 backstop procurement should be “a last resort”. CITE

Regarding Type 2 procurement, the MSC indicates that it believes that the CAISO must have flexibility to undertake such procurement if a “significant event” has occurred. CLECA and CMTA, like others, have raised concerns about the ambiguity of the conditions listed by the CAISO as possible triggers for a “significant event”. Certainly, the CAISO should have the ability to procure capacity from non-RA entities to meet Applicable Reliability Criteria (ARC). However, while the MSC states that “[t]he typical Type 2 procurement is also likely to be of a very short duration, because it is triggered by an unexpected event not anticipated at the time of the annual RA showing in advance of the compliance year”, we are concerned that after an initial 30 day designation, any expanded designation would be for another 60 days, and 90 days does not represent a very short duration. (MSC Opinion, p. 2) The ambiguity of the triggers and the possible extended duration of a Type 2 event raise real concerns about unnecessary payments by consumers unless the ARC basis of a designation is very narrowly determined.

Furthermore, while the MSC states: “[t]he primary rationale for Type 2 procurement is to ensure that the generation capacity purchased continues to bid into the short –term market. Receipt of the ICPM capacity payment is conditional on the unit owner being willing to subject its unit to the ISO’s must-offer obligation”, the generator has the ability to decline designation under the CAISO proposal. This could potentially lead to the need for the CAISO to engage in exceptional dispatch from the generator at the higher of a bid price or LMP. If the Type 2 event led to a need for procurement for 30-90 days at high bid prices, the cost to consumers could be significant and market power issues would likely arise. We thus agree with the MSC that generation owners should not be able to decline a Type 2 ICPM designation and with the reasoning process supporting this conclusion. As the MSC proposes, if a generator feels that the ICPM capacity payment is inadequate, it should be required to make a demonstration of this shortfall.