

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to
Develop an Electricity Integrated
Resource Planning Framework and to
Coordinate and Refine Long-Term
Procurement Planning Requirements.

Rulemaking 16-02-007
(Filed February 19, 2016)

**COMMENTS ON RULING 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 comments on the *Ruling of Assigned Commissioner and Administrative Law Judge Seeking Comment on Policy Issues and Options Related to Reliability*, filed November 16, 2018 (“Ruling”). The Commission’s ruling “seeks input from parties about how to address emerging electricity market issues in the near-to-medium term that may affect overall electric system reliability.”¹ In this filing, DMM provides comments that address some of the Questions for Parties asked by the Commission in its Ruling.

Coordinating CPUC and CAISO procurement and planning processes

In the Ruling, the Commission asks whether the current trends in the energy market structure could lead to potential reliability issues in the near to medium term. The Commission asks, “Is the resource adequacy or the IRP proceeding (or a mix of both) the appropriate venue for addressing these types of reliability concerns?”² The

¹ *Ruling*, p.1.

² *Ruling*, p. 6.

Commission also asks, “Are there more global solutions available via Commission coordination with the CAISO and/or beyond the reach of the Commission on its own?”³

DMM believes it is increasingly important for the CPUC and the CAISO to coordinate resource planning and procurement authorization across and between each entity’s planning and procurement processes. These processes include the CPUC’s Integrated Resource Planning (“IRP”) process and Resource Adequacy (“RA”) framework, the CAISO’s Transmission Planning Process (“TPP”) and the CAISO’s backstop procurement mechanisms: the Capacity Procurement Mechanism (“CPM”) and Reliability Must-Run (“RMR”) contracts. The CPUC and CAISO should continue to work together so that forward planning studies and downstream procurement decisions inform one another.

Coordination of CPUC and CAISO planning and procurement processes is important so that tradeoffs can be made not just among generation assets, but between generation, transmission solutions, and demand management to address reliability needs in the near, medium and long term. For example, resource retirement and replacement processes could be improved between the CAISO and CPUC to facilitate more efficient resource exit and entry. The CAISO and the CPUC could consider developing a more directly coordinated procedure to determine how assets under RMR contracts could be replaced by alternative solutions. An integrated process between the CAISO and the CPUC could identify potential solutions to resolve reliability issues that RMR resources are retained to address. This would allow transmission, new generation or demand management solutions to address reliability needs to be evaluated side-by-

³ *Ruling*, p. 7.

side to identify optimal solutions that minimize cost to ratepayers and support state policy goals. Development of selected solutions could then be facilitated through the appropriate entity (i.e. the CPUC for new resource procurement and the CAISO for transmission solutions).

Incentives for new resource procurement

The Commission's recent *Proposed Decision Reforming the Resource Adequacy Program* directs distribution utilities to serve as central buyers and procure full local capacity requirements on behalf of Commission-jurisdictional LSEs in respective Transmission Access Charge ("TAC") areas. The Commission also proposes that RA attributes of resources remain bundled, and allocated among LSEs if selected by the central buyer.⁴ Stakeholders in that proceeding have pointed out that centralized procurement under a full procurement model where all local capacity is selected by the central buyer places risk on individual LSEs engaging in capacity contracts outside of the central buyer framework.⁵ LSEs face risk that the central buyer will not count their contracts towards meeting local capacity requirements. LSEs also face uncertainty about the ability to use resources' system and flex attributes toward LSEs' own compliance if resources are selected by the central buyer. These uncertainties could deter LSEs from engaging in forward capacity contracts.

⁴ *Proposed Decision Refining the Resource Adequacy Program*, R. 17-09-020, California Public Utilities Commission, November 21, 2018 ("RA Proposed Decision").

⁵ *Calpine Corporation Comment on Proposed Decision Refining the Resource Adequacy Program*, R. 17-09-020, December 11, 2018, p. 2-3.

Comments of CalCCA on Proposed Decision, R. 17-09-020, December 11, 2018, p. 4.

Comments on Track 2 Proposed Decision by the Alliance for Retail Energy Markets, R. 17-09-020, December 11, 2018, p. 8-9.

The capacity procurement process could benefit from the Commission providing clarity on forward procurement responsibilities including what entities will be responsible for engaging in new contracts for local capacity under the proposed central buyer framework. It could be helpful to clarify when and how new procurement will be authorized by the Commission and what entities are expected to be counterparty to new resource contracts (i.e. individual LSEs or central buyers). It may be important to consider how entities will have an incentive to contract for new resources in a future that includes a central buyer performing full procurement, so that efficient resource procurement structures can be designed.

Mitigation of market power in RA and backstop procurement processes

In its ruling, the Commission asks, “Should generators seeking contracts be required, via the Commission’s procurement rules, to attest that they have or will offer their other available capacity into any solicitations from Commission-jurisdictional LSEs?”⁶ If the Commission were to require such attestations, this would seem to introduce a type of must-offer construct into Commission-jurisdictional LSE RA solicitations. DMM notes that even if a type of must-offer construct was enforced, suppliers could still offer their capacity at any price into LSE Request for Offers (“RFOs”), including local RA RFOs which will be facilitated by Commission-jurisdictional Investor Owned Utilities (“IOUs”) pursuant to the Commission’s recent *Proposed Decision Reforming the Resource Adequacy Program*. Without any type of bid price limitations, must-offer rules may not achieve the desired effect.

⁶ *Ruling*, p. 7.

In that Proposed Decision, the Commission explains that the central buyer can opt to not procure all local requirements without incurring any penalty and can defer backstop procurement to the CAISO “if bid costs are deemed unreasonably high.”⁷ Therefore, even with a must-offer construct, suppliers could bid at very high prices into local RA solicitations without penalty and may not be selected by the central buyer.

The CAISO’s CPM and RMR provisions would subsequently serve an important role in mitigating local market power of capacity in Local Capacity Areas. While DMM believes the CAISO’s current backstop compensation provisions are flawed and should be modified, the CAISO is currently considering changes to these provisions through an open stakeholder process. DMM recommends that the CPUC continue to work with the CAISO and other stakeholders to address capacity market power issues through the CAISO’s CPM and RMR initiative and future RA proceedings.

Respectfully submitted,

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⁷ *RA Proposed Decision*, p. 53.