<u>Stakeholder Comments</u>

Reliability Services Issue Paper, Posted January 28, 2014

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The Alliance for Retail Energy Markets ("AReM") submits these comments on the *Reliability Services Issue Paper* posted by the California Independent System Operator ("CAISO") on January 28, 2014. The CAISO also held a meeting to discuss the paper on February 4th. The Issue Paper contains a number of questions on which the CAISO is seeking responses.[2] Additional questions were raised at the February 4th meeting. Below, AReM provides responses to selected questions of most interest to the electric service providers ("ESPs") that AReM represents. First, however, AReM discusses its overarching concerns regarding overlap and integration of the CAISO initiative with other initiatives and proceedings underway at the CAISO and the California Public Utility Commission ("CPUC").

I.   <u>Overarching Concerns</u>

Discussion at the February 4th meeting among market participants, CAISO staff, and staff of the CPUC identified significant overlap of this newest CAISO initiative with initiatives and proceedings already underway at the CPUC and CAISO. The manner in which these overlapping proceedings will be managed within the jurisdiction of each agency, the timeframe in which each agency concludes its work and enforces compliance obligations, and the extent to which the two agencies will implement complementary or conflicting market designs were disturbingly unclear.

For example, AReM has identified the following CAISO initiatives and CPUC proceedings that interrelate or overlap with the CAISO's Reliability Services Initiative:

- CPUC's Joint Reliability Plan: Rulemaking14-02-001), just initiated by the CPUC to consider a multi-year Resource Adequacy ("RA") requirement and policy positions to address the CAISO's Reliability Services Initiative, which was

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[1] AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.
[2] Issue Paper, pp. 14-16.

originally proposed in the Joint Reliability Framework, released by the CAISO and the CPUC on July 10, 2013.

- CAISO's Flexible Resource Adequacy – Must Offer Obligations ("FRACMOO") – The CAISO said at the Feb 4th meeting that the ongoing FRACMOO initiative would remain on track for a March 2014 Board of Governor's vote and would subsequently be fully incorporated into this Reliability Services Initiative. However, several elements of the FRACMOO will only be addressed in a separate phase of this Reliability Services Initiative (or possible of the FRACMOO), and therefore will not be resolved at the time FRACMOO is put before the Board of Governors, including:
  o New availability incentive mechanism for flexible resources and
  o Incorporating FRACMOO into a standardized capacity product ("SCP")

- CAISO's "Non-Conventional Alternatives" for Local Needs in the Transmission Planning Process (part of the 2013-14 Transmission Planning Process): CAISO Staff reported at the February 4th meeting that this element would be incorporated into the Reliability Services Initiative and that the Staff's "thinking" on this issue has advanced since the September 2013 paper. Staff also suggested that the concept would/could be expanded and/or implemented though this Reliability Services Initiative, but the manner and timeframe in which that would take place has not been established.

- CPUC Resource Adequacy ("RA") Flexible Capacity rules and counting rules and requirements regarding Use-Limited Resources: Whether and how the rules being established by the CPUC in its RA Rulemaking 11-10-023 will be integrated into the Reliability Services Initiative were not discussed.

AReM requests that the CAISO's forthcoming straw proposal identify the specific CAISO initiatives and CPUC proceedings that interrelate with the Reliability Services Initiative and specify:
- The elements of each that interrelate;
- Which elements will be addressed in the Reliability Services Initiative and which elements will be developed in other CAISO or CPUC initiatives/proceedings and then incorporated into the Reliability Services Initiative;
- Proposed CAISO/CPUC process for resolving common issues; and
- An integrated timeline for completing the Reliability Services Initiative as well as all interrelated proceedings and initiatives

II. Comments on Selected Questions

AReM provides its initial response on certain questions posed in the Issue Paper that are particularly relevant to ESPs as well as several questions that arose during the February 4th meeting. The questions from the Issue Paper have been paraphrased for clarity and relevance and the questions that arose in the meeting are identified as such:

a. *Should there be separate "market mechanisms" designed for the annual and*

multi-year requirements or one market mechanism that applies for both for the backstop procurement mechanism?

ANSWER: AReM does not see any reason a market-based backstop procurement mechanism for the annual RA requirements would be different from a market-based mechanism for a multi-year forward RA obligation.

b. *Should the CAISO design a market mechanism for the backstop procurement mechanism that can optimize bids and offers for a period less than a month (to address outages)? If yes, what time period?*

ANSWER: AReM remains unconvinced that there needs to be any form of backstop procurement for outages that are less than a month, because all LSE's procure a 15% planning reserve margin in large part to ensure reliability when units are forced out. Having said that, if replacement for outages less than a month is going to be required, a market mechanism to facilitate replacement transactions would be helpful.

c. *How can the CAISO reduce transaction costs for market participants related to outage replacement?*

ANSWER: As noted above, the CAISO should re-evaluate the need for outage replacement obligations since the planning reserve margin, that all LSEs must procure, should serve to address most outages that occur. Absent that re-evaluation, the CAISO could be prepared to run a voluntary auction for buyers and sellers that would operate the same as an auction that the CAISO designs for its backstop procurement.

d. *What are market power concerns relative to an annual, monthly, or less than monthly auction for backstop procurement?*

ANSWER: Because neither the CAISO nor CPUC are currently considering the implementation of a centralized clearing capacity market that would provide price transparency and facilitate transactions, market power concerns associated with concentrated ownership/control of resources by the investor-owned utilities will continue to need to be addressed.

e. *If the CAISO adopts a market mechanism for backstop procurement, should it change the RA processes regarding the cure period?*

ANSWER: AReM would like an explanation for why a market mechanism for backstop procurement would necessitate a change to the RA processes regarding the cure period. AReM also notes that any changes adopted by the CAISO would have to be similarly adopted by the CPUC.

f. *Regarding backstop procurement for "unsystematic deficiencies," should the time period for the designation or price differ from the period/payment that applies for*

annual/monthly deficiencies?

ANSWER: AReM does not have a response to this question at this time.

g. *Should the CAISO implement a "voluntary market mechanism"? What are the benefits of this? What changes are needed to the replacement rule to allow this to work?*

ANSWER: AReM has long-stated its strong preference for a centralized capacity market. Unfortunately, the CAISO and the CPUC have made it clear that implementation of a centralized capacity market is not on the table at this time. A "voluntary market mechanism" is a second-best choice, but still preferable compared to the current administrative, fixed-price approach. AReM recommends the CAISO pursue an auction mechanism that would operate over multiple time frames in concert with the RA showing requirements for load-serving entities (LSEs). In particular, if the CPUC adopts a multi-year RA requirement for LSEs, a voluntary auction process will provide ESPs with a way to manage the risks associated with such procurement that comes from load migration and market price fluctuations. The auction mechanism should be designed specifically to address this need.

With respect to whether a voluntary market mechanism would necessitate changes to the replacement rule, AReM believes that a voluntary market mechanism could and should facilitate replacement capacity obligations as well and other multi-year, annual, and monthly capacity compliance requirements.

h. *Would a "voluntary" market mechanism in addition to a "mandatory" market mechanism mitigate any market power concerns?*

ANSWER: AReM does not believe that there is sufficient information available at this time about the design of the mandatory versus voluntary market mechanism to answer this question.

i. *Should the CAISO be a counterparty for the backstop procurement? (Question raised at February 4th meeting.)*

ANSWER: AReM does not have a response for this question at this time.

j. *Should the CAISO develop a one-year or multi-year voluntary market mechanism? (Question raised at February 4th meeting.)*

ANSWER: As noted in "g" above, AReM recommends that the CAISO develop a market-based auction mechanism that will work in concert with the RA compliance requirements imposed by the CAISO and CPUC, whether those are multi-year, annual, monthly, or otherwise.

k. *What voluntary market mechanisms other than an auction should be considered?*

(Question raised at February 4th meeting.)

ANSWER: AReM believes that an auction is the optimal approach, but reserves the right to comment on other approaches that may be suggested.