

Stakeholder Comments Template

Subject: Reliability Services

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the Draft Straw Proposal for the Reliability Services initiative that was posted on June 5th, 2014. Upon completion of this template please submit it to RSA@caiso.com. Submissions are requested by close of business on **June 26th, 2014**.

The Alliance for Retail Energy Markets (“AReM”) appreciates the opportunity to submit these comments on the CAISO’s Reliability Services Straw Proposal dated June 5, 2012.

1. Please provide feedback on Part 1: Minimum eligibility criteria and must-offer rules.
 - a. Comments on proposal portion of section
 - i. Eligibility criteria
 - ii. Must-offer requirements

AReM response: AReM does not have specific comments on what the eligibility criteria and must-offer obligations should or should not be for flexible capacity resources. However, there is a related issue that AReM notes here:

- The June 12, 2014 presentation includes CAISO’s proposals for eligibility criteria for non-generator resources, distributed generation, and proxy demand resources. It also commits to reviewing in Phase 2 the efficacy of the flexible capacity categories that are in effect for the 2015 Resource Adequacy (“RA”) compliance year. There will undoubtedly be continued overlap between the CAISO’s efforts on these issues and activities at the California Public Utilities Commission (“CPUC”). It will be important that the CAISO and CPUC are aligned on any changes that are made, so as to minimize

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.

market disruptions. The impact of any changes on existing contracts will also need to be considered. AReM requests that the CAISO include a section in each of its future Reliability Services Initiative straw proposals that summarizes the status of CPUC deliberations on the same issues, so that differences of opinion, or discrepancies between CAISO eligibility criteria and must offer requirements and those of the CPUC are identified, fully vetted, and resolved.

- b. Comments on phase 2 consideration items
 - i. Intertie resources
 - ii. Block dispatchable pumping load
 - iii. ISO dependence on MCC buckets

AReM Response: AReM reiterates its request that the CAISO include in each of its future straw proposals a section that describes the status of CPUC activities on these issues so that differences and discrepancies between the two organizations are identified, vetted, and resolved.

- c. Other comments

2. Please provide feedback on Part 2: Availability Incentive Mechanism.

- a. Comments on the general direction of the design

AReM comments: When a resource sells system, local, or flexible capacity, that sale carries a must-offer obligation. An unexcused failure to meet the must offer obligation should carry with it some sort of sanction as it represents a failure to meet its obligation. For instance, if resources have sold flexible capacity, but continue to self schedule or otherwise fail to offer capacity as required, there should be consequences for that, just as there are penalties for LSEs who fail to procure capacity in required quantities. Currently, an RA resource that fails to bid and has not provided notification of an outage has a default bid inserted for it, and if the resource is indeed unavailable, that unavailability will be reflected in the incentive payment structure.

As AReM understands it, the purpose of the new structure, where availability is predicated upon bids, is intended to ensure that the flexible resources have actually submitted economic bids in the day ahead market, and are not using outage reporting to avoid the prohibition on self-scheduling. AReM is not necessarily opposed to this new mechanism, but would like to have more discussion of possible unintended consequences. For instance, the new proposal seems to suggest that an entity may consider the economics of failing to meet the obligation in deciding whether or not to comply; indeed the fixed band proposal, which imposes no incentive charge as long as the resource has bid 94.5% of the must offer obligation tells all resources that failure to meet 5.5% of the obligation is acceptable. Similarly, allowing a resource to garner additional incentive payments for bidding above the contracted quantity may only serve to incent a resource owner to hold back some capacity knowing that it can make up the revenue through the availability incentive.

There is another related issue that must be considered and that is to clarify how outages, forced and planned, are treated in the development of a resource's Qualifying Capacity ("QC"), and how that in turn informs the level of the Planning Reserve Margin ("PRM"). If outages are taken into account in assigning QC to a resource, then the PRM should be lower than if the QC does not reflect any outage information. That is, the PRM can be relaxed if the available capacity has already been corrected for outages. Moreover, if a resource's QC reflects outages, then it could be questionable whether there should be any performance incentive at all, since improved performance will be reflected in the resource's QC.

AReM believes that the potential for unintended consequences from the general design of the proposed availability incentive bear further consideration, and that the interrelationships of QC the PRM, and incentive payments needs further discussion and simplification as well.

- b. Comments on design features
 - i. Bid-based assessment
 - ii. Fixed availability percentage band
 - iii. Single assessment for flexible and generic overlapping capacity
 - iv. Other features

AReM has no further comment on the design features of the proposed availability incentive mechanism other than those mentioned above.

- c. Comments on price

AReM has no comment on the proposed pricing of the availability incentive mechanism at this time.

- d. Comments on capacity and resource exemptions

AReM has no comment on the proposed capacity and resource exemptions to the availability incentive mechanism at this time.

- e. Other Comments

3. Please provide feedback on Part 3: Replacement and Substitution.

- a. Comments on scope
- b. Comments on replacement and substitution issues
 - i. Complexity

AReM does not agree that the complexity issues associated with replacement and substitution should be addressed by imposing all the replacement obligations on LSEs. Some LSEs are not the owners or operators of RA resources, and therefore are not in control of the information as to when, why, or for how long a resource requires an outage.

If the CAISO wants to reduce the complexity of replacement and substitution issues, it should work with the CPUC to revamp its PRM, so that it serves to provide the margin necessary to address forced outages, and eliminate altogether the replacement and substitution requirements.

ii. CPM designation risk

AReM has no comment on CPM designation risk at this time.

iii. Resource leaning

AReM has no comment on the resource leaning issue at this time.

iv. Other issues

c. Comments on flexible replacement proposal

AReM has no comment on the flexible replacement proposal at this time.

d. Comments on flexible substitution proposal

AReM has no comment on the flexible substitution proposal at this time.

e. Other comments

4. Please provide feedback on Part 4: Capacity Procurement Mechanism.

AReM general comments: AReM acknowledges that there would be many details to be worked out in the event the competitive solicitation approach is adopted. In general, however, AReM believes that a competitive solicitation would be more effective and market-based than the use of an index or other administrative price. AReM's only other comment on this topic is to note that backstop procurement by the CAISO is complicated by its use of exceptional dispatch and significant event procurement. AReM strongly urges the CAISO to consolidate its backstop procurement into one and only one mechanism order to reduce complexity and promote transparency.

AReM does not have further comment on the specific capacity procurement mechanism topics listed below.

- a. Comments on index price
- b. Comments on competitive solicitation process
- c. Comments on other changes potentially needed to CPM
- d. Comments on CPM price

- e. Comments on supply-side market power mitigation measures
- f. Comments on demand-side market power mitigation measures
- g. Other comments