

Stakeholder Comments

Reliability Services Working Group Meeting, March 27, 2014

Submitted by	Company	Date Submitted
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The Alliance for Retail Energy Markets (“AReM”) submits these comments on the presentation provided at the March 27, 2014 meeting of the Market Mechanism Working Group of the Reliability Services Stakeholder Initiative.

AReM has been a supporter of the development of a centralized clearing capacity market that will facilitate pricing transparency, ease of contracting, and market liquidity. As AReM has often noted, implementation of multi-year forward capacity obligation without these benefits of a centralized clearing capacity market, will make procurement for electric service providers (ESPs) difficult and potentially costly.

Against this backdrop, AReM is disappointed that the ongoing discussions in this stakeholder initiative are focused on such a narrow capacity auction construct. As AReM understands the current proposal (as discussed at the March 27th Working Group meeting), the CAISO’s proposed Reliability Services Auctions would allow buyers and sellers to procure only *residual* RA capacity on a voluntary basis. The CAISO defines “residual” procurement as the “10%” needed by load-serving entities (“LSEs”) to meet their System RA Requirements on a monthly basis after they have procured 90% of their RA requirements year ahead (Slide 29). The auction(s) would be run each year in September and completed by October 1 (Slide 46), before the deadline for RA compliance showings to the California Public Utilities Commission (“CPUC”) so that the CPUC can avoid revising its “current RA penalty structure” (Slide 44).

In addition to concerns about the narrow scope of the proposed residual auction, AReM’s comments are as follows:

- Auction Liquidity – Restricting the auction to 10% of LSEs’ System RA requirements severely impairs market liquidity, which necessarily leads to higher prices for consumers.

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.

- Timing of Auction – The CAISO proposes running the auction before RA showings are due to the CPUC at the end of October (Slide 46). This is a change from the CAISO’s Issue Paper, in which the CAISO proposed running the auction in the time period following the RA compliance showing to the CPUC when LSEs are allowed to cure any deficiencies in their RA showings before incurring a penalty.² AReM supports this new timing.
- CPUC Alternative – Publishing Bilateral RA Contract Prices – At the March 27th meeting, CPUC staff described an alternative to the auction, which would involve publishing bilateral RA contract prices, perhaps in aggregated form, and stated that this proposed alternative was preferable to a CAISO-run auction. AReM disagrees that the CPUC’s proposed alternative would be preferable to a CAISO-run auction. First, the CPUC only has ready access to bilateral contract prices that are reported on a confidential basis to the CPUC by the utilities, and does not have ready access or the authority to collect or publish the prices of competitive suppliers. As such, the posting will not be comprehensive or verifiable, likely would not reflect current market conditions, and is not a viable substitute for a centralized clearing auction. Second, it is questionable whether such published bilateral RA contract prices would satisfy FERC’s requirement for a “durable market-based mechanism” (Slide 74).
- Timing of Phase 2 to Address Multi-Year Requirement – If the CPUC adopts a multi-year forward RA requirement for LSEs, as is under discussion in Rulemaking 14-02-001, a capacity clearing auction will be essential to provide ESPs with a way to manage the risks associated with load migration and market price fluctuations inherent in multi-year forward procurement. The CAISO’s auction mechanism must be designed and implemented specifically to address this need. Accordingly, it is important that the CAISO’s multi-year auction be implemented and operational *before* any multi-year forward compliance obligations by the CPUC take effect. The January 28th Issue Paper contemplated a Phase 2 Board decision in late 2015.³ AReM requests that the CAISO’s Straw Proposal clarify that the CAISO intends that the multi-year forward auction be operational in time for use to meet any multi-year forward procurement requirements implemented by the CPUC.

² *Reliability Services Issue Paper*, posted by the California Independent System Operator (“CAISO”) on January 28, 2014, p. 15.

³ *Ibid*, p. 5.