

# California Department of Water Resources (CDWR) comments on Reliability Services Issue Paper

February 18, 2014

CDWR appreciates the opportunity to provide its comments on the CAISO's issue paper "Reliability Services" dated January 28, 2014, and respectfully submits following comments.

The CAISO views the Reliability Services Initiative (RSI) as primarily a *backstop market mechanism* to prevent systemic daily, monthly, or multi-year capacity shortfalls. The RSI Issue Paper also suggests a possible need for changes to some of the existing RA rules through a two phase process. In RSI Phase 1, the objective is to standardize generic Resource Adequacy (RA) products, and to enhance RA market participation incentives. In Phase 2, the objective is to update the Capacity Procurement Mechanism (CPM) to include multi-year backstop authority, and to again assess the risk of retirement of resources that CAISO deems to be necessary for maintaining future year RA. The impetus for this RSI initiative is the CPM expiration in February 2016, and the proposed Joint Reliability Plan (JRP) for multi-year RA.

- 1) Need for change in generic RA rules is not demonstrated: CAISO has not demonstrated that a problem exists with the current SCP (other than the need for CPM renewal) or the RA provisions of the CAISO Tariff. The SCP was designed to create a robust tradable commodity that met the operational needs of CAISO. The various qualification and incentive processes ensure that the SCP resource characteristics are real and meet the needs of CAISO. It has been the general perception that the "generic" RA program is working well. CAISO should address flexibility needs and other features such as SCP III by adding new features onto a construct that is proven to work. CDWR understands that a need for non-generic RA, also known as "flexible" RA, is developing. Indeed, the Flexible Resource Adequacy Criteria and Must Offer Obligation (FRAC MOO) initiative was created to address that gap. FRAC MOO has evolved as a viable mechanism to fill the gap not addressed by the generic RA construct, and that mechanism can be incorporated into existing RA requirements. The FRAC MOO process considers the existing generic RA construct to be sufficient for non-flexible RA needs. For the generic RA, apart from SCP III, any changes that may be required to the existing SCP have not been demonstrated. The current SCP design has adequately addressed incentives (excluding SCP III), and CDWR does not see a compelling reason to change it for the purposes of generic RA. Minor adjustments such as availability assessment hours may be changed within the existing tariff provisions.

CDWR also notes that the inclusion of highly ranked initiatives related to RA (SCP III for demand response) as a part of this initiative is appropriate to address demand response resources for their participation both in generic and flexible RA. As flexible RA rules will be imposed beginning 2015, it may be prudent to wait and see how

those changes work before considering substantial changes to the existing generic RA rules.

- 2) Local Regulatory Authorities (LRA) rights should be honored: The current RA provisions recognize and accommodate the rights of state and local regulatory authorities (LRA) to establish the appropriate resource mix for their jurisdictional LSEs to address environmental priorities, fuel diversity and other ratepayer needs. Standardization of RA products should not lead to infringement on the rights of Local Regulatory Authorities (LRA) to make such decisions. LRAs have their own RA programs with provisions for satisfying their RA needs and these should be respected by CAISO. The current tariff allows the LRA to set provisions such as counting rules, and CAISO has presented no evidence that these provisions are not working.

Additionally, CDWR has following comments to specific CAISO questions in its issue paper:

### ***Annual CPM designations***

ISO question: Given the interaction between the annual and multi-year market mechanism, should these be developed in conjunction or as completely separate mechanisms?

Comments: They should be developed in conjunction to eliminate complexities or conflicts so that RA planning will have a smooth year to year transition.

ISO question: What are market power concerns specific to an annual auction?

Comments: Any market mechanism must have adequate protection against market power. Market power may be associated with scarce and unique characteristics found generally in local and flexible RA capacity, or with location of a unit.

### ***Monthly CPM designations***

ISO question: Should the ISO consider a market mechanism design that can optimize bids and offers for less than a month?

Comments: Depending on the type of backstop mechanism CAISO adopts, it would be helpful for LSEs to have the ability to find replacement capacity for daily (including hourly) forced outages where an LSE may not have a suitable replacement or substitution resource. Such a mechanism could consist of a market or bulletin board of un-subscribed capacity (and the capacity attributes), which could help LSE's quickly find suitable replacement resources to help minimize exceptional dispatches and related CPM costs. Whether the mechanism takes the form of a market, or a bulletin board or some other market form, participation in such a process should be voluntary for resource owners and market participants.

ISO question: What time period should the ISO consider evaluating in a market mechanism?

Comments: As noted above, a market or the bulletin board or other mechanism should be able to address capacity needs even as granular as an hour. For example, if a RA resource undergoes a forced outage for an hour that counts against its SCP availability, the owner or Scheduling Coordinator for resource could use the market to substitute for that hour and avoid penalty which would ultimately enhance system reliability.

ISO question: What could the ISO do to reduce market participant transaction costs related to outage replacement?

Comments: The backstop market mechanism could address daily capacity needs including hourly needs such as for replacements and substitutions in order to minimize exceptional dispatches and related CPM costs, enhance reliability, and reduce overall costs to market participants. A voluntary market mechanism may allow a market participant to evaluate its outage and find a replacement that is more cost effective for the duration of the outage compared to incurring a daily backstop penalty rate.

ISO question: Given the ability of the ISO to optimize total backstop procurement through a market mechanism, should the ISO consider changing the RA processes surrounding the cure period length of time?

Comments: CAISO could help market participants with a cost effective cure by maintaining a market, or a bulletin board of unsubscribed capacity, or allowing suitable resources to bid on the cure.

## ***Unsystematic CPM designations***

ISO question: What should the ISO take into consideration when issuing a CPM designation for an event that requires an immediate designation?

Comments: ISO should consider the actual duration of need, cost, effectiveness, and provide a technology agnostic approach in resource selection.

ISO question: Should the ISO consider shortening the length of time allowed in the market mechanism?

Comments: the designation period should be based on the actual duration of the need, rather than the minimum 30 days.

ISO question: How should the annual and monthly backstop capacity price relate to the backstop price for an unsystematic event?

Comments: a) In principle, capacity price should not be different than annual and monthly back stop price. b) If there were a market to address backstop procurement

need, market price for such unsystematic event could be reflected in the market itself based on the demand and supply scenario.

ISO question: What are market power concerns specific to an unsystematic market mechanism?

Comments: A higher level of market power concern may be associated with unsystematic CPM. Given the unique characteristics of local and flexible capacity resources, there may be a higher level of market power during unsystematic events that can only be mitigated by relaxing some of the constraints that create the uniqueness.

## ***Voluntary market mechanism***

ISO question: Are there benefits to a voluntary market mechanism where both buyers and suppliers could provide bids?

Comments: Yes. The market should be developed for the products that are needed such as hourly, daily capacity needs (substitution and replacements) along with monthly, annual and multi-year range.

ISO question: It is useful to consider a voluntary market mechanism within a monthly market mechanism?

Comments: Yes. It will provide an opportunity to cure a within month shortfall, including unit substitutions and replacements.

ISO question: Could the use of a voluntary market mechanism in addition to a mandatory market mechanism mitigate any market power concerns?

Comments: It is not clear what mandatory market means in this context. Market participation should be voluntary. However, voluntary participation in a market may mitigate some market power risks.

ISO question: How could the replacement rule be altered to allow for a voluntary market mechanism?

Comments: Substitution and replacement requirements should be a part of a voluntary market. Rules should be designed in such a way that substitution and replacement to hourly granularity can be made through the market mechanism.

ISO question: Should the ISO evaluate the time allowed for load serving entities' to cure deficiencies given the market-based mechanism proposed construct?

Comment: Sufficient time should be allowed so as to allow a market participant to utilize a voluntary market or the bilateral market to make a cost effective cure decision.

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