

California Department of Water Resources (CDWR) comments on Reliability Services (Market Mechanism Working Group meeting)

April 9, 2014

CDWR appreciates the opportunity to provide its comments on the CAISO's presentation with Market Mechanism Working Group on "Reliability Services" dated March 27, 2014 and respectfully submits the following comments:

- a) Product term should not be limited to a month or higher: Page 62 of the presentation indicates that the standard product term will be a minimum of one month. This does not even go as far as the current provisions, which permit the replacement requirement for planned outages of less than a month to be filled with ISO backstop capacity designated for periods shorter than a month period. The auction mechanism should be designed to address transaction activities that are likely to take place in larger volumes, even where the product term is less than a month. For example, ISO has indicated that the replacement requirement for planned outages entails acquisition of significant MW volumes and that required substitutions for forced outages can also require large volumes. Filling the gaps for these two types of capacity shortages is important for reliable operation. The MW volume for these needs could be much higher than the needs shown for historical backstop transactions. Today, bilateral trading fills these two types of capacity needs for periods of less than a month. Therefore, a voluntary auction mechanism that addresses less than a month needs for replacement requirement and forced outage substitution would be beneficial to buyer, seller, and the ISO. Less than a month capacity needed or capacity that is sitting idle would be utilized on a daily basis.
- b) Bilateral procurement price consideration for backstop procurement: The historical data indicate that ISO backstop volume is very small. Based on the historical data, there might be a low number of transactions and lower liquidity in a backstop market. There is no certainty that a voluntary auction will assume the place of the bilateral trades. CAISO should consider factoring in bilateral prices (to the extent voluntary auction does not have enough liquidity) when determining the backstop price, in order to counter concerns over the potentially low level of liquidity. Exploring a bilateral pricing factor (to the extent large volume of RA capacity trade takes place bilaterally) could be an alternative solution for the backstop price.
- c) Product types: Page 61 indicates that: a) a single system product, and b) 3 categories of products defined in FRAC MOO will be considered. How local RA product will be addressed is not clear.
- d) Primary and residual procurement definitions: the notion that the difference between 100% RA Requirement (RAR) and 90% RAR in annual planning is the amount of residual procurement does not address a particular situation with an LSE who provides only 70% of RAR in its annual filing. For this LSE, 30% becomes shortfall (difference between 100% RAR and 70% RAR in annual). Assuming that this LSE resorts to ISO backstop procurement, will the backstop of 30% of its RAR be considered residual or just 10% only as the residual as defined?
- e) Split Auction bids (page 38): The supply curve above voluntary market clearance is proposed to be used for the mandatory auction. Does that mean that the same supplier is committing its resources for two split market mechanisms? Why not have separate bids for each split markets

(voluntary and mandatory instead?) or have separate market for voluntary auction for parties (buyers and sellers), auction for systematic CPM backstop, and an auction for unsystematic CPM backstop?

- f) CPM price derived from voluntary auction: The presentation indicates that the annual CPM price would be derived from the annual voluntary auction; how would the price be determined if annual voluntary auction does not clear? The same question applies to the monthly CPM price derived from monthly voluntary auction and the unsystematic CPM price derived from the monthly voluntary auction.

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