

Comments of the California Large Energy Consumers Association (CLECA)
on the California ISO Reliability Services Initiative Presentation of 2-24-14

At the February 24 stakeholder meeting, the ISO presented its preliminary ideas for new voluntary and mandatory Residual Procurement Market Mechanism (RPMM) auctions, which would be the means of procuring residual and backstop capacity. The impetus appears to be the sunset of the Capacity Procurement Mechanism (CPM) in early 2016 and a preference expressed by FERC for a more market-based mechanism, although FERC has not ordered such a replacement.¹ CLECA is concerned with the complexity of the ISO's proposal (at least as put forth in the February 24 presentation) and its intention to use it cover a large array of reliability needs. The ISO should focus instead on developing a simpler means of procuring residual and backstop capacity that can be easily implemented without an undue burden on market participants or ratepayers.

The ISO has not yet developed a straw proposal, so comments can only be provided based on its issue paper and presentation at the stakeholder meeting, neither of which provided much detail as to the exact nature of the various reliability requirements involved or how the process would work. (Indeed, the requirements for flexible capacity are not yet complete and those for multi-year forward procurement are only now being contemplated). However, the presentation belies claims that the proposal would lead to greater simplicity. The ISO would procure residual capacity if needed after LSEs first engage in procurement to meet their various resource adequacy (RA) obligations. This residual capacity need would result from deficiencies in the LSEs' annual and monthly RA plans, as well as the capacity required for planned outage replacement. The ISO contemplates using the proposed auctions for flexible capacity as well as system and local RA – and anticipates that different prices will emerge to reflect the varying values of the different types of capacity. Moreover, it contemplates using the auctions to backstop the multi-year forward RA proposal being considered as well at the CPUC.

The ISO proposal is extremely complex. It would procure different types of capacity (system, local, and flexible) with different obligations simultaneously and would be run on both an annual and a monthly basis. It would also involve both voluntary and mandatory auctions. Later it would have a forward procurement dimension. It cannot help but be elaborate. Its development will take time and effort. There are numerous other concurrent activities at the ISO and CPUC to address flexible capacity, multi-year forward RA procurement, replacement capacity, etc. The question is whether this mechanism is needed at this time. The ISO has not yet made the case for it.

The ISO first should consider the continued use of the current CPM beyond February

¹ The Issue Paper also refers to standardizing eligibility criteria and must offer obligations for local and system resource adequacy, but the February 24 presentation did not include much detail on this topic.

2016. While the CPM has an administratively-determined price, the ISO presentation agrees that CPM designations are rare. In making any changes, the cost to consumers of continuing the CPM compared to the cost of more complex alternatives should be taken into account. The ISO indicates there could be more reasons for CPM-type designations in the future, which may well be true. The ISO raises, as an example of its future concerns, the flexible RA capacity that was not bid into its markets in 2012. There was no obligation, however, to bid in flexible RA capacity in 2012. The rest of the justification is largely theoretical and conceptual, leading to a question of whether there is any urgency to make the proposed change to an auction-type mechanism. So far it appears there is not. We understand the concern that the CPM does not currently provide price differences for system, local, and flexible RA. However, such price differences should exist or emerge in the bilateral market, unless they are suppressed by the current period of excess capacity, and these could inform differences in the CPM.

Additionally, there are questions as to the use of the CPM for new purposes. CPM backstop currently is not done on an annual basis but a one- or two-month basis. It would have to be modified for annual procurement and further modified for forward procurement, a topic for Phase 2 of the ISO Initiative.

These issues do not require the development of entirely new auction mechanisms. Furthermore, CLECA and other end-use consumer groups have expressed concern about the impact of any FERC-jurisdictional auction, e.g. at the ISO, mandatory or otherwise, on the State's ability to pursue its energy policy preferences. While the ISO staff at the February 24 workshop claimed that its proposal differs from the Voluntary Residual Market under debate at MISO, the difference is not readily apparent. The ISO proposal involves a mandatory as well as a voluntary auction, and our concerns remain. Indeed, this issue is of such importance that it is to be addressed in the CPUC's Multi-year Forward Rulemaking, R. 14-02-001.

Procedurally, any ISO decision to adopt the proposed auctions in early 2015 would be out of sync with the CPUC's proposal to reach a decision in September 2014 on its position on such auctions. We strongly recommend that the CPUC and the ISO develop their proposals taking the jurisdictional issues into account and that they adjust their schedules so that the CPUC can weigh in on the jurisdictional issues once the ISO proposal is finalized.

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