

I. INTRODUCTION

The second CAISO workshop on the Reliability Services Initiative (RSI) was based on an extensive slide presentation. The CAISO indicated that many aspects of its presentation were at preliminary stages and conceptual. Certain matters were far from fully developed, such as the possibility of a Minimum Offer Price Rule for the CAISO's proposed RA auctions. Thus, these comments reflect the conceptual nature of the proposal and raise concerns about matters that are not fully developed at this point.

II. CAISO SHOULD SEEK A LIMITED EXTENSION OF THE CAPACITY PROCUREMENT MECHANISM

A. A Limited Extension of CPM Would Enable Needed Coordination with the CPUC

The timing of the CAISO process is not aligned with the timing of the CPUC process. While the CAISO is moving forward with its auction proposals, the CPUC has yet to decide whether its jurisdictional LSEs can participate in such auctions.

Given the preliminary nature of the CAISO proposal and the uncertainty about the CPUC response, CAISO staff's effort to work cooperatively with CPUC staff is well-intentioned and appreciated. Understandably, the CAISO seeks to respond to FERC's encouragement to find a market-based pricing mechanism to replace the current administrative price for its Capacity Procurement Mechanism (CPM) for backstop procurement; CPM currently expires in February 2016. However, the CAISO should seek a limited extension of the CPM so the matters to be addressed by both the CPUC and the CAISO may be handled in a coordinated way. Given the disparity between CPUC and CAISO staff positions on the proposed auctions, coordination is needed.

B. There Is No Agreement on the Use of the Auctions

This stakeholder process was initiated to maintain CAISO backstop authority to meet reliability needs, while developing a market-based price for such backstop capacity. This has been combined by the CAISO with proposals for both voluntary and mandatory auctions. According to the CAISO, these auctions may be used by LSEs to make up any RA capacity deficiencies or replacement requirements and by the CAISO to provide the desired market-based price for backstop capacity if the LSEs fail to do so.

The CAISO and the CPUC do not agree on the extent to which such auctions may be used by CPUC-jurisdictional LSEs, if at all.¹ The CPUC-CAISO Joint Reliability Plan refers to the use of a backstop procurement mechanism that could also be used

¹ The CPUC will not address this issue until Track 3 of R. 14-02-001.

for voluntary procurement “in excess of any forward capacity procurement requirements.”²

1. CPUC Staff Position

CPUC staff states that “voluntary’ procurement *would only occur above and beyond the forward RA compliance requirement amount.*”³ At the March 27 workshop, CPUC staff appeared to consider this voluntary procurement to apply primarily to years 2 and 3 of a possible multi-year forward procurement requirement from R. 14-02-001. The CPUC staff also states that a mandatory auction “would clear the RA “requirement” amount if resources showed up short for the 1-year ahead compliance showings”.⁴ This suggests that CPUC Staff anticipates that a mandatory auction, rather than a voluntary auction, would provide the CAISO with a vehicle for backstop procurement if RA capacity contracted by all LSEs did not meet the CAISO’s perceived reliability needs.⁵

Also, it is not known whether any voluntary auction would be available to cure a deficiency in a year-ahead showing, i.e. whether it would occur before or after the LSE’s compliance requirement. The CPUC has not yet determined whether its jurisdictional LSEs will be permitted to use any CAISO auction for meeting their RA procurement requirements, for the next compliance year or future years.⁶ This will be addressed in Track 3 of the CPUC’s rulemaking.

2. CAISO Staff Position

The CAISO, on the other hand, proposes a voluntary auction for annual and monthly RA procurement requirements that are not met by bilateral procurement, referred to as “residual procurement”, for the first compliance year. While this

² Joint Reliability Plan, at 8.

³ See CPUC Staff Comments on CAISO CPM Workshop_Final.docx., at 2 (emphasis in original).

⁴ Id.

⁵ R. 14-02-001, at 5 (“We will, however, consider alternative proposals for policy changes that may be necessary to ensure long-term resource adequacy, such as supporting a limited form of an organized capacity auction to fulfill CAISO backstop procurement needs, should they arise. Our decision will be considered against the Commission’s concerns expressed in D.10-06-018.”)

⁶ Joint Reliability Plan, at 9 (“The CPUC rulemaking will also determine the extent to which CPUC-jurisdictional utilities may be authorized to participate in a Reliability Services Auction to meet forward resource adequacy compliance requirements and how such participation will affect or relate to procurement authorized through existing CPUC policy mandates (in particular preferred resources). Issues relevant to such determinations will be identified in the scope of the new CPUC rulemaking but may include, for example, considering interdependencies between the proposed design of any Reliability Services Auction, proposed (or adopted) multi-year resource adequacy requirements, and existing bilateral and other procurement processes.”)

voluntary auction will be linked to backstop requirements, CAISO offers other reasons for a voluntary auction. These include allowing smaller LSEs to meet their procurement requirements, on the grounds that such an auction might be more efficient and provide greater price transparency than bilateral contracting.

The CAISO also proposes to use such an auction as a market-based source of pricing for its CPM backstop procurement. The CAISO can perform CPM backstop procurement for annual or monthly system RA, local RA, or unsystematic CPM.⁷ It also states that in the future it may engage in backstop CPM procurement for flexible capacity. The CAISO proposes several auction options although it indicated that it may not use the same auction for pricing and procurement.⁸ The CAISO indicated at the workshop that pricing information from a one-year forward voluntary market with monthly prices would better suit CPM pricing needs than a longer-term auction. It also believes that an annual forward voluntary auction will have more liquidity than an annual backstop procurement auction.⁹

Neither the efficiency nor the transparency of a voluntary auction is assured, however, especially if participation is limited by LRA procurement and compliance requirements. Furthermore, the need for such an auction has not been established.

C. Given the Sufficient Performance of Bilateral Markets, There Does Not Appear to Be An Immediate Need for An Auction

Thus far, RA procurement through the bilateral markets for the next compliance year has been successful. Indeed, at the March 27 workshop, the CAISO noted that there are currently no annual deficiencies. The CAISO did raise concerns about the potential for future deficiencies due to flexibility requirements and replacement rules. Thus, the CAISO's proposals are based on anticipated possible future challenges rather than any current ones. The question, of course, is whether these will indeed arise and whether the risk is so great as to require development of a set of auctions in such anticipation.

For these reasons and given the sufficiency of the current bilateral markets, CAISO should seek a limited extension of the CPM while addressing key threshold issues associated with its proposal.

⁷ Unsystematic CPM has been defined by the CAISO as that needed for reliability due to a significant event or a requirement for exceptional dispatch.

⁸ At the workshop, for example, the CAISO clarified that the voluntary auction would provide pricing information for CPM, rather than be used for procurement for CPM. Depending on the nature of the CPM requirement, an auction may not be the best means of acquiring the necessary resources.

⁹ CAISO March 27 presentation, at 11.

II. THRESHOLD ISSUES OF NEED, PRICE AND AUCTION DESIGN

The CAISO's proposal is preliminary, and key, threshold issues must be addressed. Three threshold issues warrant close review: 1) whether a voluntary auction is needed for annual or monthly RA procurement; 2) whether a voluntary or mandatory auction would provide appropriate price information for CPM designations; and 3) what auction design should be considered.

A. NEED

To determine whether there is a need for a voluntary auction for annual and monthly procurement, one may ask whether this need is effectively being met through bilateral markets. To date all RA procurement, system and local, has readily been met through these bilateral markets. The small amount of backstop procurement by the CAISO via CPM has, according to ORA, largely been due to the SONGS outage, and there has been very little CPM for annual or monthly RA.¹⁰

While the CAISO has expressed concerns about future sufficiency of flexible RA, there is insufficient information at this point on the voluntary showing of flexible RA capacity for 2014 to know if there were any shortfalls. There will be no information on deficiencies until late this year. Indeed, 2015 will be the first year when there will be a flexible capacity RA obligation. Thus, there is no compelling evidence that a voluntary auction is needed for annual and monthly flexible RA.

The year-ahead RA showing is for 90% of the next year's system obligation by month and 100% for local RA. Accordingly, the maximum amount of capacity that could be bought from the voluntary auction would be 10% of system and possibly 10% of flexible RA; the latter depends on whether system and local RA meet flexibility requirements and whether the CAISO decides to require 100% procurement of flexible RA on an annual forward basis. The CAISO refers to this as "residual" procurement. The CAISO's estimated MW that could be bought in the voluntary auction is thus based on this maximum 10% difference for system/flexible RA.

The CAISO's slides indicate the assumption that this 10% will find its way into the voluntary market, but that is not likely. The utilities have stated that they have more RA under contract a year ahead than the 90% of system RA required in the showing.¹¹ In off-peak months, the monthly system requirement is likely to be covered by year-ahead required local procurement, which has to be procured at the full 100% a year ahead. Furthermore, if the CAISO were to in the future require showings of 100% flexible capacity a year ahead, which it might, this would again substantially reduce the amount that would find its way into the voluntary market

¹⁰ ORA comments on February 24, 2014 working group meeting, at 2,

¹¹ The utilities would actually show more than 90% but the outage replacement rule discourages such showings.

auction. In addition, in those rare cases when an RA showing has been found insufficient, the existing “cure” process has quickly and efficiently resolved it; this likely would not require a voluntary auction.

These considerations suggest that there will be more bilateral residual procurement and less procurement through a voluntary market and that there is little likelihood of any need for an annual or monthly CPM designation. If the actual amount that might be purchased for annual and monthly RA is far less than the 10%, could the market be efficient? There is not enough information to know.

B. PRICE

It is also not clear that a voluntary auction would provide appropriate prices for unsystematic CPM. To ease jurisdictional concerns at the CPUC and among consumer representatives, the CAISO has attempted to confine the voluntary auction. However, if this leads to an illiquid market, it will not necessarily provide useful market-based prices. If a subsequent proposed solution were to move toward mandatory markets, this would exacerbate the jurisdictional concerns.

If the CAISO’s intention is to have a market-based price for annual and monthly CPM, one source could be current bilateral markets. To address concerns of insufficient transparency, more information could be made available about bilateral RA prices without disclosing confidential information. Running an auction in order to provide a price for CPM is the tail wagging the dog if this data can be made available from bilateral market transactions.

If there continues to be little need for CPM for annual or monthly RA, the focus would be on unsystematic CPM. Unsystematic CPM is likely to have different attributes from system or local annual or monthly RA. For example, most Exceptional Dispatches for CPM in recent years have been very location-driven. Any offers in the voluntary market may not be for resources that meet an unsystematic CPM requirement, due to location or effectiveness. Thus, if the CAISO’s intention is to use the voluntary market to produce a market-based price for unsystematic CPM, the capacity offered into the market is not likely to be appropriate to provide such a price.

The CAISO has also raised the question as to whether more transparent prices would create an incentive for investment. This is not evident either. Investment in California has largely been dictated by the continued use of long-term procurement contracts resulting from regulatory proceedings for the investor-owned utilities. Publicly-owned utilities similarly have alternative means for building or procuring resources. Furthermore, in other ISO/RTO markets, the level of prices and their duration have not supported much investment to date.

C. AUCTION DESIGN

The CAISO's Slide 34 from the March 27 workshop shows three conceptual options for an auction mechanism:

1. Split auction: a voluntary auction run followed by a mandatory backstop auction run;
2. Voluntary auction only: a voluntary auction used to create a CPM price;
3. Combined auction: a combined auction that has a mandatory portion and a voluntary portion.

FERC has not indicated a need for an auction for backstop capacity, only a market-based mechanism to price it; thus there is no basis for a mandatory auction. Since unsystematic CPM designations are likely to be location-driven, a mandatory auction is not likely to provide either the needed capacity or an appropriate price. Since unsystematic CPM designations are usually driven by unusual circumstances, there may not be time to run a mandatory auction. Continuation of the current procedures to designate resources for such purposes seems more appropriate.

The CPUC has indicated it does not want its jurisdictional LSEs to use a CAISO auction for procurement for the 90% system and 100% local RA requirements. It is not sure if it would want a residual auction to occur before or after RA compliance showings need to be made. It is uncertain as to whether FERC would approve an auction that would only apply to "residual" procurement in either case. A voluntary auction, if the CPUC finds the jurisdictional issues resolvable, could allow smaller LSEs to do incremental procurement. However, many issues on the design of a voluntary auction remain and raise concerns.

For example, the mention of a Minimum Offer Price Rule (MOPR) leads to the following questions. How would a minimum offer price be developed for renewable resources and demand response that have no start-up, minimum load, and fuel costs? In its reply to ORA's Comments on the RSI White Paper, CAISO distinguished the MISO Residual Capacity Auction from its own proposed voluntary auction, on the grounds that MISO's auction was mandatory. This is not the case. The MISO RA auction for which the MOPR has been proposed in the requested rehearing is voluntary¹² and there is extensive use of bilateral contracting in MISO for RA,¹³ just as in California. The parties requesting a MOPR also requested that the auction be made mandatory. FERC has yet to rule on these requests.

Furthermore, if a voluntary auction were only run to produce prices for CPM, not for procurement, what happens to the winners of the auction? There is no demonstrated need for residual annual or monthly procurement and the resulting

¹² See 139 FERC ¶ 61,199 (2012) at 25.

¹³ See 139 FERC ¶ 61,199 (2012) at 15.

prices may not be appropriate for unsystematic CPM. Thus, unless experience in 2015-2016 indicates difficulty in procurement of flexible capacity by LSEs, the usefulness of these auction proposals is questionable. The CAISO's concerns about greater price transparency could be addressed by publication of bilateral RA prices in all categories, with appropriate masking for confidentiality. The CPUC could and should make this happen.

IV. CONCLUSION

CLECA appreciates the opportunity to provide this input into the CAISO's stakeholder process on reliability services. A limited extension of the CPM would enable coordination of this process with the CPUC's process, and allow full consideration of the key threshold issues of need, price and auction design. As the existing bilateral markets provide sufficient RA, and increased price transparency could be achieved with aggregated and masked disclosures, CAISO should consider seeking a limited extension of the CPM.

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