

Comments of the California Municipal Utilities Association (CMUA)
on the
Reliability Services Issue Paper
Dated January 28, 2014

CMUA appreciates the opportunity to comment upon the CAISO's Reliability Services Issue Paper dated January 28, 2014.

As a framework, CMUA supports the Joint Reliability Plan ("Plan") developed by the CPUC and CAISO Staff members. CMUA generally supports the Order Instituting Rulemaking that scopes issues and proposes timelines for consideration and implementation of the Plan elements. With respect to the Issue Paper, however, there are elements that clearly need to be considered and decided to move forward with the Plan. There are also proposals that appear unnecessary and afield of the core Plan elements. CMUA urges the CAISO to stick to the basics and not to "bite off more than it can chew."

Proposals to change the Resources Adequacy paradigm in California must start from the fundamental realization that the current RA rules have and continue to work well. They have ensured adequacy of supply for approximately a decade and have evolved to include local requirements, deliverability assessments, and, soon, will include flexibility obligations with the implementation of FRAC MOO. The CAISO should be hesitant to tamper with the RA framework beyond what is necessary to implement the Plan.

The CAISO does not to be reminded that, in addition to RA changes, numerous other substantial market design initiatives are ongoing and proposed to be implemented in this general timeframe, including Order No. 764, Full Network Model expansion, and the Energy Imbalance Market. It could reasonably be argued that the plate is already too full. These Initiatives should be scaled to focus on elements necessary to implement the Plan only.

The CAISO appears to agree with the above point of view when it states that the initiative will focus on "necessary conforming changes, and "changes essential" to create a durable backstop mechanism." Yet there appear elements in the Issue Paper that do not meet these limiting statements.

RA Replacement Rules

For example, the rule governing replacement of RA resources is proposing to be considered and possibly substantially modified. The CAISO describes a proposal (RSI Paper at 8) whereby a resource that may qualify for a local or flexible need, but is not identified as such but rather as a system resource, would be required to be replaced by the more granular RA requirement. CMUA will ask for further clarification as to why the CAISO believes this is an essential change. CMUA can envision many reasons why the asset owner might be hesitant to have a resource be subject to local or flexible RA

requirements, such as unit run time limitations or age. So long as the overall portfolio of the LSE meets the system, local, and flexible obligations, and the replacement does so as well, it would appear at first blush that this proposal would increase the overall RA obligations without any concomitant benefit. It is also not readily apparent why this is an essential change as part of Plan implementation.

Standardized Rules

CMUA also urges the CAISO to be cautious when considering rules to “standardize” treatment of resources and must offer rules for different technology types “as feasible.” (RSI Paper at 5). The fact is that the California market system is a hybrid, and the fleet has long been made up of a variety of resource types with varying operational characteristics and regulatory limitations. CMUA would surmise that the percentage of California resources with use limitations, for example, has always been well above 50%. We cannot pretend that these realities are not present, and attempts to aggressively homogenize all resources into one set of rules will not be successful. CMUA understands the benefits of more simplicity in this area, but at some point the reality of the fleet characteristics must be faced. CMUA welcomes further discussion on this matter.

Energy and A/S Market Participation and Incentives

Since start up, the mantra of the market designers has been to “get the prices right.” In a properly designed market, it is the price signals that should incentivize and discipline market behavior, not purposefully constructed tools outside of market pricing.

By gathering anecdotal evidence from members, and also in discussions with other market participants, CMUA has found that some discussion of whether energy and A/S market prices properly reflect competitive outcomes and system requirements, or whether the various aspects of how prices are derived require some reconsideration. Certainly, energy market revenues and overall revenue adequacy are linked. CMUA is not certain, however, that exploring this issue is essential as part of this initiative, or belongs in a separate stakeholder process. CMUA believes this issue should be teed up for further stakeholder discussion.

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