

Stakeholder Comments

Reliability Services Initiative Working Group, February 24, 2014

Submitted by	Company	Date Submitted
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The Office of Ratepayer Advocates (ORA) provides the following comments on the Reliability Services Initiative (RSI) working group held February 24, 2014.

1. The California Independent System Operator (CAISO) should consider exploring several backstop mechanisms in its draft straw proposal.

California’s current reliability framework has maintained reliability of the electrical system over the last decade while at the same time enabling California to meet important environmental and risk management goals. There are several key elements to California’s reliability framework that have ensured the reliability of the electric grid. These include the California Public Utilities Commission’s (CPUC) Resource Adequacy (RA) Program, Short-Term Procurement Planning, Long-Term Procurement Planning (LTPP), and the CAISO’s Capacity Procurement Mechanism (CPM) and Transmission Planning Process (TPP).¹

The CPM is one of the key elements which “allows for backstop procurement of capacity by the CAISO in the event a deficiency exists after accounting for the resource adequacy showings (including to respond to short-term reliability needs) or if the CAISO determines that a

¹ Joint Reliability Plan (JRP), pp. 2-3, adopted November 14, 2013 available at <http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&DocID=81666376>.

resource is at risk of retirement and will be needed by the end of the next calendar year following the current resource adequacy compliance year.”² Since 2009, the CAISO has spent \$32 million for short-term backstop capacity via the CPM; \$28 million of this total was due to the extended outage at the now closed San Onofre Nuclear Generating Station (SONGS), which was taken out of service unexpectedly in January 2012. The CPM was used only twice in 2013, at a total cost of approximately \$3 million dollars.³ The total backstop costs are small compared to RA program capacity payments to ensure reliability. The limited use of the CPM as a backstop indicates that California’s reliability framework is working well and that the CPUC’s RA program minimizes the need for backstop procurement, especially in the absence of large unexpected retirements such as SONGS.

Several parties commented on the viability of continuation of the current CPM as an option for the CAISO to consider in the forthcoming straw proposal. ORA agrees with Pacific Gas and Electric Company’s (PG&E) assessment that replacing the CPM with a market-based mechanism is not a Federal Energy Regulatory Commission (FERC) mandate, and that the CAISO can consider the option of extending the CPM.⁴ Independent Energy Producers (IEP) recommended that the CAISO “seek FERC’s approval to extend the existing CPM mechanism.”⁵ In addition, Calpine noted that the “[s]tatus quo may be preferable to a poorly designed market.”⁶ Southern California Edison Company (SCE) stated that market solutions are preferred only if the conditions for competitive markets exist.⁷ It is unclear that the conditions needed to support a market-based backstop mechanism exist. Further, ORA has previously outlined some of the

² JRP, pp. 2-3.

³ See CAISO’s presentation, available at <http://www.ferc.gov/EventCalendar/Files/20110428065914-CAISO%20CPM%20presentation%204-28-11.pdf>; 2013 capacity procurement mechanism reports, available at <http://www.caiso.com/Documents/Capacity%20procurement%20mechanism/2013%20capacity%20procurement%20mechanism%20reports>; and Capacity procurement mechanism reports archive, available at <http://www.caiso.com/Documents/Capacity%20procurement%20mechanism%20reports%20archive>

⁴ PG&E’s Reliability Services Issue Paper comments, p. 5.

⁵ IEP’s Reliability Services Issue Paper comments, p. 1.

⁶ Calpine’s presentation at February 24 CAISO RSI working group meeting, p. 4, available at : <http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityServices.aspx>

⁷ SCE presentation at February 24 CAISO RSI working group meeting, p. 1, available at : <http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityServices.aspx>

critical questions regarding the economic and legal viability of a market-based backstop, and has recommended that the CAISO addresses these questions early in the design of any proposed market mechanism.⁸ These issues were not adequately addressed in CAISO’s presentation during the February 24 Reliability Services Initiative (RSI) working group. CAISO has not yet demonstrated that a market-based backstop mechanism to replace the expiring CPM is needed or whether it meets the JRP’s “goal of improving and enhancing the existing reliability framework’s procurement requirements and processes.”⁹ Therefore, ORA recommends that CAISO include the option of seeking FERC’s approval to extend the existing administratively-priced CPM mechanism as one of several options in its forthcoming straw proposal.

2. The following data and analysis would be helpful in designing a durable residual procurement mechanism.

What are the specific reliability needs underlying the scope of the Reliability Services Initiative?

ORA supports PG&E’s recommendation that the “CAISO should provide more details about the specific reliability needs underlying each of the six items that the CAISO defines as in scope for the RSI.”¹⁰

Do reliability needs justify replacing the existing CPM backstop mechanism with a market-based backstop mechanism?

The CAISO should assess the current projected levels of flexible capacity in the system each year until 2022 or later years, and the full range of characteristics of those flexible resources.¹¹ This assessment should include the flexibility contribution expected from resources procured or planned for procurement as a result of authorizations for local capacity in Track 1 and Track 4 of the 2012 LTPP (R.12-03- 014). This should also include the ability of energy-limited resources or other non-conventional resources to effectively contribute towards meeting flexibility requirements. Such nonconventional resources might ultimately be accounted for on

⁸ ORA’s Reliability Services Issue Paper comments, pp. 6-9.

⁹ JRP, p. 3.

¹⁰ PG&E’s Reliability Services Issue Paper comments, p. 3.

¹¹ This issue, regarding data through 2020, was raised by Sierra Club and The Utility Reform Network in their request for hearings in R.11-10-023, p. 2, filed March 7, 2013 (Sierra Club and TURN request for hearings in R.11-10-023), available at: <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M058/K689/58689091.PDF>

either the “supply” or “demand” side of the ledger, but the quantity and attributes of these resources should be included in the assessment of any potential multi-year RA construct. Available CAISO and CPUC data may either be insufficient or has yet to be adequately vetted by stakeholders.

What is the range of projected need for “effective flexible capacity” for each year through 2022 or later years?¹²

This need arises from the changing patterns of system net demand, in part due to increasing penetration of intermittent resources on the system. The continuation of the deterministic and stochastic analyses of operating flexibility issues in the 2014 LTPP may further clarify and refine the range of ramping needs over the next decade. However, the LTPP analyses focus on needs solely for later years (2020, 2022) and not earlier years (2015 through 2017, e.g.) during which the RA procurement mechanism would apply. The CAISO RSI should require deterministic and stochastic analyses to determine the projected need for effective flexible capacity for each year through 2022 or later years.

What are the expected costs and benefits to implementing any market-based backstop mechanism? Do the benefits outweigh the costs?

ORA recommends examining how the potential change from the current CPM to a market-based backstop mechanism would impact ratepayer costs and benefits. This process should include a historical record on costs and quantities of backstop CPM capacity, projections of possible costs of backstop CPM under different proposed market mechanisms, and ways of protecting ratepayers from increasing costs under any market-based backstop mechanism.

The CAISO should provide data on self-scheduling.

ORA agrees with SCE’s recommendation that the CAISO should provide data on the current degree of self-scheduling by technology types and for gas, distinguishing between self-schedules of min-load and dispatchable capacity.¹³

¹² Sierra Club and TURN requested hearings on this issue in Rulemaking11-10-023, p. 2 (Commission’s RA proceeding).

¹³ SCE presentation at February 24 CAISO RSI working group meeting, p. 2, available at : <http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityServices.aspx>