Comments of the Staff of the California Public Utilities Commission on the CAISO's Reliability Services Initiative Phase One Draft Final Proposal (January 22nd, 2015)

Submitted by	Company	Date Submitted
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The Staff of the California Public Utilities Commission (CPUC Staff) have appreciated the opportunity to participate throughout the Reliability Services (RSI) Stakeholder initiative. As CAISO prepares to present the final RSI phase one proposal to the CAISO Board of Governors we offer these final comments on the document issued January 22nd.

Resource Adequacy (RA) Availability Incentive Mechanism (AIM):

Background on the AIM

Developing a revised AIM price has been a significant focus of phase one of the RSI. The RSI is a two-phase, multi-year effort to address the ISO's rules and processes surrounding resource adequacy (RA) resources. "The [CA]ISO provides incentives beyond energy market revenues for RA capacity to participate in the energy market and meet a resource-specific must offer obligation. This is done through an availability incentive mechanism that pays capacity for availability and charges capacity for non-availability. The availability incentive mechanism increases reliability through rewarding high performing resources and penalizing low performing resources, reducing potential gaming, and increasing the standardization of RA contracts."[1]

CPUC Staff supports setting an AIM price that is high enough to ensure that Resource Adequacy (RA) resources will offer into the CAISO markets in a manner consistent with their RA contracts. Therefore, it is in the best interest of ratepayers that the AIM mechanism pricing be set within the upper range of RA prices. CAISO's current proposal is to set AIM at 60% of the CPM soft offer cap price, which has been proposed to be $3.79/kW-month. In an earlier draft of the RSI this was set at $3.50, and a draft from fall of 2014 proposed that the AIM be set according to RA prices observed in the CPUC's published RA report.

CPUC Staff supports CAISO's proposal for a three-month "advisory period" with modifications. Staff does not believe that three months is sufficient time to evaluate and determine whether the AIM

[1] RSI Draft Final Proposal at 32.

mechanism is working as designed, especially because a three month time frame does not capture RA price changes throughout the year. Therefore, CPUC Staff recommends a review of the AIM performance be conducted at the conclusion of one year. By providing an additional assessment after an entire RA year, the CAISO will have better assurance that the bidding behaviors and application of AIM observed is attributable to the incentive mechanism and that the price is appropriate to motivate resource availability. An annual review may also provide the opportunity to adjust the AIM price, if needed.

During the evaluation period, if CAISO concludes that the proposed AIM is not having the desired effects, CPUC Staff recommends that the CAISO evaluate whether the AIM should be increased or whether it would be more appropriate to link the AIM to observed RA prices. Although an AIM price of $3.79/kW-month does represent a price in the upper range of statewide average RA prices, in certain local areas RA prices are much higher than statewide averages. Accordingly, tying the AIM to the CPM soft offer cap price may result in a situation where the amount of the penalty/ incentive is much lower relative to actual RA costs in specific local areas. Since the purpose of the AIM is to motivate performance under existing RA obligations, it is important that it maintain relevance with RA prices.

Relationship to FRAC-MOO

CPUC Staff also supports the proposal that a flexible RA resource only have a single flexible MOO for purposes of the AIM. Anything more would be unnecessarily complex. However, we have concerns that the “highest quality category” could be inappropriate and that the use of the term “highest quality” is also confusing. This specific language could create issues if a single resource is bidding in to multiple FRAC-MOO categories, and being penalized as if they bid into the most demanding category. This issue is also one that should be analyzed during the advisory period and potentially revised if found to be unfairly penalizing resources that bid in under FRAC-MOO category 2 or 3.

Definitions of Use Limitations

The CPUC Staff understands that rules related to the treatment of use-limited resources are being developed in the Commitment Cost Enhancements initiative. Nevertheless, for the purposes of the Board’s review of the AIM, and for the development of Phase 2 of the RSI, CPUC Staff finds it critical that the CAISO consider use-limitations that are based on existing long-term contract provisions approved by the CPUC and not just environmental limitations, such as those based on environmental permits issues by air districts or other state and local regulatory agencies.

Capping Local RA Quantities at System RA Maximum

CPUC Staff is supportive of capping monthly local RA requirements at monthly system RA requirements. CPUC Staff believes that capping local RA requirements at system RA requirements will provide cost savings to ratepayers while also accommodating the ISO’s planned outage rules. This benefit will be realized by removing the potential for over-contracting for local areas by an individual LSE, inconsistent with the LRA’s decision on that LSEs generic RA compliance obligation. Additionally, CPUC Staff is aware that the CAISO has recently proposed this same rule change in the CPUC's current RA proceeding (R.14-10-010), and appreciates the CAISO's efforts to coordinate on this issue.