

California Public Utilities Commission

**Energy Division Staff Comments on the
CAISO Reliability Services Initiative
Issue Paper (January 28, 2014)**

Submitted by	Company	Date Submitted
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The Staff of the California Public Utilities Commission (CPUC) appreciates this opportunity to comment on the California ISO's (CAISO) Reliability Services Issue Paper, which lays out how CAISO plans to "look holistically at . . . backstop procurement authority to ensure sufficient resources with the right capabilities are offered into the ISO markets to meet local, flexible, and system capacity requirements." The CAISO proposes two phases for the RSI. The first proposed phase will focus on defining eligibility criteria, availability incentive mechanisms, and must offer requirements for local, system, and flexible Resource Adequacy, as well as creation of a market mechanism for the CAISO to procure backstop capacity if necessary. The second proposed phase will begin in 2015 and focus on implementation of the market mechanism developed in phase one and evaluation of CAISO's risk of retirement backstop procurement authority. The CPUC Staff look forward to continued close coordination and collaboration between our respective staff and management on the topics raised in this issue paper and in the OIR instituting the Joint Reliability Plan (R.14-02-001), which was adopted by the CPUC in February 2014. The CPUC Staff also offer the following comments on the RSI issue paper and February 4, 2014 Stakeholder Meeting:

- 1. The CPUC Staff supports holding a workshop and requests that CAISO staff provide stakeholders with information in advance to allow for a more efficient use of stakeholder time and resources.**

The CPUC Staff supports the CAISO's proposal to hold a public workshop to explore development of the market mechanism. The CPUC staff requests that in advance of the public workshop on February 24th the CAISO should circulate a brief overview of the options it is considering for potential market mechanisms to replace the current backstop capacity procurement mechanism (CPM). These options could include alternative mechanisms for

backstop procurement for each “type” of capacity—system, local or flexible—and/or different procurement timeframes—annual, monthly, or unexpected events. Presenting such an overview in advance will enable more meaningful stakeholder participation in the workshop and will ensure that the CAISO receives more efficacious feedback early in the RSI.

2. The CAISO should confirm that multi-year backstop procurement authority will be taken up in Phase 2, not Phase 1.

The issue paper lays out two phases for the Reliability Services Initiative, but is vague regarding the division of certain issues between the two. Any issues related to the consideration of a multi-year forward process for backstop procurement of the CPUC’s Resource Adequacy program should only be discussed in Phase Two and should not overlap with issues discussed in phase 1b or 1c. An important aspect of the joint processes undertaken pursuant to the Joint Reliability Plan is to allow the CPUC OIR to proceed (as it is preliminarily scoped) by considering multi-year forward RA obligations first. Doing so before the CAISO considers any updates to the CPM to reflect the potential change in forward RA compliance requirements is critical to the success of this joint effort.

Further, in response to the CAISO’s question, “[g]iven the interaction between the annual and multi-year market mechanism, should these be developed in conjunction or as completely separate mechanisms?” the CPUC Staff believes that the “annual” mechanism should be deferred to Phase 2 so that the CAISO can focus Phase 1 on developing the market mechanisms for the monthly and unsystematic CPM designations. During the February 4 stakeholder meeting the CAISO stated that it has never had to use its CPM authority to backstop procure for an annual deficiency. Further, the CPUC maintains authority to impose penalties for LSE deficiencies in the annual showings. Rather than expending resources now to develop market approaches for at least three different procurement time frames (annual, monthly, and the various unsystematic CPM designations) the CAISO should focus Phase 1 on developing the mechanism for pricing monthly and unsystematic CPM designations. Once they are developed, then the CAISO can develop the “annual” mechanism in Phase 2 *along with* its consideration of the appropriate design for multi-year forward backstop procurement.

3. The CAISO’s holistic review of resource adequacy rules should ensure consistency with the CPUC’s RA program.

The draft straw proposal for Phase 1 should carefully address how the CAISO will, under phase 1a, develop standardized eligibility criteria for RA resources while ensuring that these criteria are consistent with the CPUC’s RA decisions and resulting program. The proposal should also clarify what the CAISO intends as the scope for Phase 1c (during which it will consider “enhance[d] incentive mechanisms for RA resource market participation”). CAISO staff has indicated their intention to consider issues regarding the availability incentive

mechanisms, which the CPUC Staff interprets as meaning that CAISO intends to re-asses the Standard Capacity Product (SCP) as well as to define incentive mechanisms for flexible capacity by defining the Flexible Standard Capacity Product (FSCP). However, given that the issue paper does not define further the intention for Phase 1c, or the specific need to be addressed, CPUC Staff requests such clarification in the straw proposal.

Phase 1 of the RSI should also allow for discussion and consideration of the flexible capacity must offer obligations, and not categorically exclude these issues from Phase 1. Although the CAISO is currently finalizing its proposal for flexible RA eligibility criteria and must-offer obligations in the FRACMOO initiative, the CAISO significantly modified its proposed requirements very late in that process and without much time for vetting or analysis of the CAISO's data and proposed categories for must offer obligations. Further, because the CAISO proposes to undertake a holistic review of RA rules, flexible capacity should be included in the discussions in order to ensure consistency and an integrated approach to offer obligations (and other requirements) for all flavors of capacity (system, local, and flexible capacity) and different resource types/technologies (*e.g.*, demand response, storage, etc). Rather than taking these issues off the table simply because the FRACMOO Initiative has been completed, the CAISO should expressly signal to stakeholders that it will provide a forum for achieving consistent and integrated rules for the whole suite of RA requirements.

As an alternative to considering the RA rules in Phase 1 of the RSI and due to the highly technical nature of RA rules and the need for precise definitions, the CAISO should consider commencing a new and separate stakeholder initiative to provide the forum for a holistic re-evaluation of RA rules. This could provide a more efficient path forward and would allow the RSI to focus on developing the market-based backstop procurement mechanism. Although the CAISO will need to concurrently develop appropriate standardized product definitions for backstop capacity products, the consideration of product definitions, technical rules and potential tariff modifications related to RA resources do not necessarily need to be considered in the context of the RSI.

The scope of a new initiative could potentially include: (1) identified enhanced minimum eligibility criteria for system, local, and flexible RA capacity consistent with the CPUC RA decisions; (2) modifying must-offer rules for generic and local use-limited resources and for flexible resources to maintain consistent definitions across capacity and technology type, and (3) modifying the SCP and creating an FSCP to determine the incentive mechanisms for system, local, and flexible capacity. (The RSI should consider if the replacement and substation rules need to be modified or synchronized with a new CPM pricing mechanism).