Comments of the Staff of the California Public Utilities Commission on the CAISO's Reliability Services Revised Straw Proposal (August 11, 2014)

Submitted by	Organization	Date Submitted
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The Staff of the California Public Utilities Commission (CPUC Staff) appreciates this opportunity to comment on the California Independent System Operator (CAISO) Reliability Services Revised Straw Proposal, released on August 11, 2014, and discussed at the stakeholder meeting on August 25, 2014. The CPUC Staff provides brief comments on some of the issues that it has identified and looks forward to working collaboratively with the CAISO and other stakeholders through this process.

Part I. Eligibility Criteria and Must-Offer Rules

With respect to eligibility criteria, the CAISO refers to both "***default*** qualifying capacity provisions, including availability and eligibility criteria requirements" (see p. 10, emphasis added) and "***minimum*** eligibility criteria for system, local and flexible resource adequacy (RA) capacity" (emphasis added, p. 6). Consistent with the CAISO tariff (Section 40.8), it is Energy Division staffs' understanding that the CAISO here is referring to ***default*** criteria to be applied only where the CPUC or other Local Regulatory Agency has not established its own minimum eligibility requirements and, thus, references to "minimum" eligibility criteria should be replaced in all instances with "default" eligibility criteria.

In addition, it would be helpful to clarify the 0.5 MW requirement for distributed generation resources. CAISO states that "this requires the resource be at least 0.5 MW," but also states that "individual distributed generation facilities may not exceed the minimum 0.5 MW." It is unclear if this is a minimum or a maximum requirement.

The CAISO indicates that it intends to reevaluate the MCC buckets, beginning with an evaluation of subset of hour contracts, but the overall scope of this effort is unclear. Energy Division staff look forward to providing additional comments when the study method is more fully developed and hopes to work jointly with the CAISO on this effort.

Part II. Availability Incentive Mechanism

CAISO proposes to revamp its incentive program (the current SCP availability mechanism) to include flexible resources and address other issues that it has identified. The CAISO is proposing to move its incentive mechanism from one that focuses on forced outages to one based on bidding behavior (for flexible capacity) and availability (for system and local capacity), to change the target to 96.5% availability on a monthly basis and the band around the target from 2.5% to 2%, and to use an incentive price of $3.5/kW-month ($42/kW-year), rather than current CPM price of $70.88/kW-year, or $5.90/kW-month.

At this time, the CPUC staff have no position on this proposal, but note several concerns, including a potential mismatch between RA payments and RA penalties/incentives that will differ by month and a potential mismatch between the CPM price and RA penalties/incentives. Additionally, staff are concerned about the potential complexity of the proposal given that the magnitude of the problem (i.e., performance of flexible capacity RA resources) is still unknown.

Part III. Replacement and Substitution

The CAISO proposes, among other provisions, to place the replacement obligation on generators and to revise the Resource Adequacy compliance timeline. ED staff appreciate the CAISO's efforts to align this process with the CPUC process and to delay implementation of this proposal until the 2017 or 2018 compliance year. Given this schedule, however, it would be helpful to understand the timeframe the CAISO is proposing for adoption of the rules governing its proposed changes. If these changes are contemplated for the 2017 or 2018 compliance years, should these proposals be considered by the Board for approval in Q1 2015 or at a later date when more fully developed?

In addition, the CAISO proposes that the CPUC complete its RA compliance process in 10 days, with receipt of supply plans from the CAISO at T-40 and completion of its validation process at T-30. First, ED staff note this process will work to the extent that the CPUC receives supply plans from CAISO on a date certain (i.e., T-40) but that this regularity has not been achieved in practice. Second, Energy Division staff are somewhat concerned that the compressed timeframe could lead to unnecessary use of the capacity procurement mechanism, and undue costs to ratepayers, for issues/deficiencies that could have been resolved with additional time.

Finally, it would be helpful if the CAISO could clarify additional details in its straw proposals. For example, does an LSE still have an obligation to replace resources it knows will be on outage at T-45, or will this responsibility always fall on the generator, regardless of the timeframe (in other words, can LSEs show resources on their plans that they know will be on a planned outage)? In assessing replacement requirements in the timeframe after T-45, will the CAISO use current forecasted system conditions rather than the CEC 1 in10 forecast for local and/or the 1 in 2 forecast for system? If a resource wishes to take a planned outage during a summer peak month but that request is denied, is the availability incentive mechanism (set at $3.5/kW-month) sufficient to deter the resource from going offline regardless, as a forced outage, if the resource is contracted for a higher amount?