

**Comments of the Staff of the California Public Utilities Commission**

**On the CAISO Reliability Services Initiative  
Stakeholder Meeting—March 27<sup>th</sup> 2014**

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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The Staff of the California Public Utilities Commission (CPUC Staff) appreciate the opportunity to comment on the CAISO proposal for a Reliability Services Auction presented at their Stakeholder Meeting on March 27<sup>th</sup>, 2014. Our overarching comment is that the CAISO should allow the CPUC to consider issues currently scoped in Track 3 of our Joint Reliability Plan OIR (R.14-02-001) before finalizing the details of a proposed Voluntary Auction as a key component of a CPM replacement mechanism.

Generally, in recognizing that the timing of the CPUC proceeding and the CAISO initiative are currently mismatched, CPUC Staff would like to see CAISO, in the interim, develop and present non-auction based alternatives to a CPM replacement price, and/or a concept for a voluntary auction that is not designed as a necessary pre-cursor to determining a market-based CPM price. CPUC Staff assumes that these alternatives also would not require running a voluntary auction with a minimum amount of liquidity as a precursor, as is the case with the CAISO proposed design. These should be fleshed out in the CAISO's first draft Straw Proposal, and this would be very helpful to have before the CPUC as Track 3 of the CPUC's Joint Reliability Plan Proceeding (R.14-02-001) gets underway. We do expect that the proposals made under the Reliability Services Initiative for market-based or auction mechanisms will become part of the record in R14.02.001, but it will be easier for the proceeding to consider and digest simpler and less controversial aspects of the CAISO proposal first. For this reason, Staff hopes to see a proposal from CAISO in the near future that primarily addresses the capacity backstop mechanism, and includes alternatives to a backstop price derived from a voluntary market.

CAISO Staff explained at the stakeholder meeting that plans for a reliability services auction must still include an administrative price, to be used in the case that the auction "fails" and for unsystematic events (i.e., significant events, exceptional dispatch, and risk of retirement). CPUC Staff would like the CAISO's straw proposal to outline how a fair administrative price should be reached. CPUC Staff are also generally concerned that the CAISO is devoting a lot of resources to developing an auction-based-pricing mechanism for a procurement tool that has never been used to backstop for system or

local capacity. Recent history has shown that the CPM has only been used for “unsystematic” events like unplanned outages and for exceptional dispatch. The current proposal appears to pose an overly complex solution to a fill procurement need that is intended to be used rarely, if ever.

Further, while the JRP documents discuss a “Reliability Services Auction,” the CPUC Staff’s view is that creating a voluntary auction was not a primary goal for the JRP. While the CPUC agreed to consider a market-based backstop mechanism to replace the CPM, *such as* a Reliability Services Auction, the Joint Reliability Plan is clear that the CPM backstop auction should not be presumed to be a necessity. By contrast, the CAISO proposal seems to be premised upon an assumption that we *must have* a voluntary auction run annually and monthly and that such an auction will have enough liquidity so that it can be used to determine a “market based” CPM price.

Also, while a voluntary auction is mentioned in the JRP, it was discussed as a secondary process that could run in addition to a backstop auction, and if the CPUC implemented a multi-year forward Resource Adequacy requirement, but not as a prerequisite to conducting a backstop auction. It is, at present, unclear how the auction-based procurement mechanisms proposed by CAISO staff will impact reliability issues or the existing bilateral capacity markets. CPUC Staff is concerned the CAISO stakeholder process has not fully considered possible negative reliability effects that could be created by implementing the voluntary residual auction and the derived backstop price.

CPUC Staff would like to note that the proposal for a Reliability Services Auction would require some regulatory changes to the CPUC administered Resource Adequacy program. Specifically, if the CAISO is to act as the “clearinghouse” for supply and demand bids, then it is in essence the counterparty for all transactions, and would therefore hold the actual contracts for capacity coming out of the auction. The CPUC would then need to allow the recognition of such capacity contracts (which would not be held by the LSE’s themselves). It is not clear how these contracts would be recognized under the current Resource Adequacy program rules.

One additional problematic design element CPUC Staff has identified is the requirement that sellers into the voluntary market would be required to offer “firm” bids that would be used to set the price in the mandatory “backstop” market. CPUC staff is concerned that this could cause available capacity to become unavailable for an undetermined time period, and therefore taken out of the bilateral market, which could provide a “false” signal and increase capacity prices.

Therefore, it would be unproductive for the Reliability Services Auction design, as presented at the recent Stakeholder Meeting, to be further developed by the CAISO before the CPUC has determined whether or not a voluntary auction would be permissible for our regulated utilities. The CPUC’s consideration of multi-year RA requirements is also relevant to this determination, and that issue has not yet been decided by the Commission under Track 1 in the newly opened proceeding. However, Staff does expect this issue to be among the first considered under the proceeding, which should be helpful to the CAISO in planning the timeline for the RSI.

Whether the CPUC can support the present or future CAISO proposal for a Reliability Services Auction will depend on input from parties to R. 14-02-001 on issues such as: whether FERC will recognize a limited role for a backstop auction and/or a voluntary auction, what the legal risks associated with such an auction would be, whether or not the auction would create cost impacts to ratepayers from transaction costs or inflated capacity prices, and other issues identified in the preliminary scoping memo. Staff expects that the CPUC will begin building a record on these issues in the next few months, which would also hopefully allow for the CAISO to re-introduce the voluntary market proposal, as appropriate, in the near future.

CPUC Staff therefore recommends that the CAISO re-focus the Reliability Services Initiative, in the short term, on the shared goal of replacing the current settlement-derived capacity backstop price, as stated in the Joint Reliability Framework. CPUC Staff looks forward to working together to ensure that all activities undertaken because of the Joint Reliability Plan have a strong connection to ensuring reliability. CPUC Staff is committed to working with the Assigned Commissioner and ALJs within our JRP proceeding to ensure that the issue of a voluntary market is considered early on in Track 3, so that CAISO can receive a clear signal on whether or not such a mechanism could be acceptable to the CPUC before proceeding further in developing this phase of the Reliability Services Initiative.