

Stakeholder Comments Template

Subject: Reliability Services

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the Draft Straw Proposal for the Reliability Services initiative that was posted on June 5th, 2014. Upon completion of this template please submit it to RSA@caiso.com. Submissions are requested by close of business on **June 26th, 2014**.

General Comments:

1. Please provide feedback on Part 1: Minimum eligibility criteria and must-offer rules.

a. Comments on proposal portion of section

- i. **Eligibility criteria.** The CAISO has articulated its goal of applying the same availability criteria for a given resource classification for resources that interconnect at either the distribution or transmission level, including distribution generation and non-generator resources (e.g. storage). (p. 13) IEP supports this objective.

The CAISO also articulated its goal of recognizing resources that have operational and/or environmental constraints limiting their availability (i.e. so-called “Use Limited” Resources), and taking this into account when determining compliance with availability criteria. IEP supports this objective as well.

- ii. **Must-offer requirements.** See comments above.

b. Comments on phase 2 consideration items.

- i. **Intertie resources.** Delaying consideration of these resources/items until Phase 2 seems reasonable in light of the workload. As noted above, intertie resources should be subject to comparable MOO standards and availability criteria as all other resources.

- ii. **Block dispatchable pumping load.** Delaying consideration of these resources/items until Phase 2 seems reasonable in light of the work. As noted above, block dispatchable pumping load should be subject to comparable MOO standards and availability criteria as all other resources.
- iii. **ISO dependence on MCC buckets.** The CAISO and Commission need to be coordinated on the use and application of MCC buckets, RA product definitions, etc. Equally important, the determination of RA product definitions and MCC “bucket” determinations for such products need to occur via a public, transparent stakeholder process supported by appropriate technical analysis and modeling.

c. **Other comments.**

2. **Please provide feedback on Part 2: Availability Incentive Mechanism.**

- a. **Comments on the general direction of the design.** The design of the Availability Incentive Mechanism (AIM) is evolving, so IEP awaits further discussion of the proposal. However, at this early stage, IEP is generally comfortable with the direction of the overall AIM design.
- b. **Comments on design features**
 - i. **Bid-based assessment.** Moving to a bid-based protocol (vs. an outage-based protocol) needs to be further considered, but appears on its face to be reasonable.
 - ii. **Fixed availability percentage band.** The bandwidth proposed appears reasonable. IEP recommends that the Fixed Availability Percentage Band be based on a rolling 4-year average. The current proposal is not clear, and might be read as saying the 4-year average is fixed for some undefined duration. IEP seeks clarity as to the proposal in this regard.
 - iii. **Single assessment for flexible and generic overlapping capacity.** Because the assessment is in the context of “availability,” which applies in the condition of all RA products, imposing a single assessment for non-availability irrespective of the product for which the resource is unavailable or LSE RA-counting protocols appears reasonable.
 - iv. **Other features.** IEP seeks further clarity on the methodology for determining whether an individual resources’ availability falls below or, alternatively, exceeds the availability standard.

As IEP understands the proposal, the deficiency in availability will be calculated on a daily MW-weighted average percentage basis. We remain unclear whether this calculation is daily or monthly. We believe that including a table in the 2nd Straw Proposal describing how an individual

resource will be measured to determine whether it meets or exceeds the availability standard on a daily and/or monthly basis would be helpful.

- c. **Comments on price.** IEP seeks further clarification as to the availability deficiency “charge” (e.g. the methodology for determining the charge, the basis on which it is determined, etc.)

Under the straw proposal, when an individual resource fails to meet the availability standard, then the individual resource will be “charged” for its deficiency in meeting the availability standard. While unclear, apparently the CAISO is proposing to impose a deficiency charge based on, and equivalent to, the CPM “backstop” compensation price (to be determined).

As a practical matter, the “product” associated with CAISO backstop procurement appears to be differentiated and, therefore, distinct from the “product” associated with the availability incentive mechanism. CAISO CPM backstop procurement (a) occurs when the CAISO purchases needed capacity outside the market in a condition of RA shortage due to inadequate forward procurement by LSEs or “significant events” (e.g. exceptional dispatch, risk-of-retirement, etc.); and, (b) typically results in whole resources being procured for a specified duration of time. On the other hand, the “deficiency charge” (a) is imposed on individual resources failing to meet a prescribed RA availability standard; and, (b) typically will result in a charge per deficient MW that may range from 1 MW to many. Given the distinct and differentiated “products” associated with these two market design features, we remain unconvinced that any direct, “one-for-one” linkage between a CPM compensation price/payment and the deficiency charge/penalty for unavailability is appropriate or reasonable.

- d. **Comments on capacity and resource exemptions.** While the current CAISO tariff provides exemptions from the SCP availability incentive mechanism (tariff section 40.9.2), the straw proposal states that “The ISO does not propose to automatically apply the same exemptions to the new availability incentive mechanism.” (p. 43). The rationale being that significant amounts of capacity are currently exempt from the current availability incentive mechanism, and secondly that the proposed changes will not be implemented until 2016.

IEP seeks further clarification as to specifically what resources that are currently exempt from the SCP will no longer be exempt from the new standard?

Certainly, to the extent that an existing contract terminates then the Resource that sells an RA product must be expected to meet the new requirements on a going-forward basis. However, resources continuing to operate under existing contracts post implementation of the new availability incentive mechanism which are exempt from the current SCP should be entitled to retain this exemption for the duration of its existing contract.

- e. **Other Comments.** IEP believes that the rationale for creating availability incentives is sound. As IEP understands the proposal, charges to so-called “availability underachievers” will be awarded to so-called “availability over-achievers.” This approach should achieve the desired outcomes. We disagree, however, that any of the deficiency “charge” imposed on under-achievers should be diverted to other market participants such as Load-serving Entities (LSEs) as suggested by some at the workshop, as this will mute the incentives for resources to be available when others are not. Importantly, this aspect of the overall proposal is not directly related to CPM compensation, rather it is focused on affecting availability performance of resources. Thus, it would be inappropriate and unnecessary to divert any of the deficiency “charge” to compensate LSE’s for CAISO CPM backstop procurement which, by definition, arises in the context of a failure of the LSE procurement practices in the forward markets to mitigate the occurrence of backstop procurement in any form.

IEP asks for clarification re the Proposed Availability Assessment Methodology (p. 31). The straw proposal states that “in any individual hour a resource could be above or below the standard percentage [band-width] without incurring a charge or payment.” Yet, the straw proposal goes on to state that “Only if the daily MW-weighted average percentage fell above or below the standard percentage would a charge or payment be incurred.” A table describing how this Availability Assessment Methodology would be applied over the course of a 24 hour period would be helpful.

3. Please provide feedback on Part 3: Replacement and Substitution.

- a. **Comments on scope.** This is complicated, particularly as regards replacement for Flex RA. The current rules impose the replacement/substitution obligation on the SC for resources after the 45 day-ahead RA showings. If this obligation retains, then the SC for resources may be obligated to provide replacement/substitution resources in the absence of any form of “standard flex capacity product,” and a significant questions remains whether this can be accomplished when limited resources may be available to meet the defined, operational need. As the CAISO considers this technical and commercial problem, IEP recommends considering developing any proposals in the context of the following program/policy design features:
- i. **“Resource Boundaries.”** Consider informing market participants a reasonable and suitable range of operational requirements matching CAISO needs (e.g. upper/lower boundaries of operational requirements). The goal would be to increase the availability of replacement/substitution resources and, hence, improve the liquidity of the Flex RA market;
 - ii. **Guidance Document.** Consider the value to the market of providing a Guidance Document to inform resources of the types of resources suitable and the range of operational characteristics acceptable; and,
 - iii. **Pre-Qualification of Resources.** Consider providing resources an opportunity to pre-qualify their resource to match a Flex RA need; and, then make available to market participants annually/monthly a list of pre-

qualified resources as a means to inform the market-place as to suitable replacement and/or substitution resources.

- b. Comments on replacement and substitution issues.** IEP has no comments on this section at this time.
 - i. Complexity**
 - ii. CPM designation risk**
 - iii. Resource leaning**
 - iv. Other issues**
- c. Comments on flexible replacement proposal.** IEP has no comments on this section at this time.
- d. Comments on flexible substitution proposal.** IEP has no comments on this section at this time.
- e. Other comments.** IEP has no comments on this section at this time.

4. Please provide feedback on Part 4: Capacity Procurement Mechanism.

IEP continues to be concerned that the backstop CPM mechanism is being considered out-of-context to real backstop procurement. While not opposing per se the proposal to incent voluntary bids to fill this backstop “need,” IEP is concerned that the solicitation of offers may be insufficient to meet the rather specific and unique needs associated with exceptional dispatch, significant events, and resources at risk of retirement. When insufficient offers are submitted in the respective backstop solicitations or, more importantly, zero offers, what happens?

In light of this general concern, IEP provides the following general comments to the proposal:

First, IEP supports the principles that any efficiency and transparency in the procurement of backstop resources is paramount. Unfortunately, IEP is not convinced that the two options proposed meet these objectives.

- Option 1 would use information provided by the CPUC from the RA bilateral market to establish a price for backstop capacity. In response, IEP notes that the market prices from the RA bilateral market are not transparent to market participants. Indeed, under the current CPUC rules regarding data confidentiality, any such pricing data is not required to be publicly disclosed until three years have passed. IEP would have strong concerns with any mechanism that is relying on non-transparent data to determine in whole or in part the compensation for backstop procurement by the CAISO.

- Option 2 would implement a competitive solicitation process to obtain voluntary offers from resources made available to the CAISO in the context of backstop procurement. While perhaps workable, this approach raises a number of concerns. First and foremost, what happens if insufficient bids are submitted to the CAISO? Presumably, the CAISO will act to order resources to be available. In this case, under what authorities is this action taken, and importantly what will be the price paid for resources in this context? Second, will the solicitation(s) be for each product sought by the CAISO, i.e. exceptional dispatch, significant events, and/or risk of retirement; or, alternatively, is the solicitation “one size fits all”? Furthermore, the proposal suggests that the solicitation will include for varied periods, i.e. annual, monthly, and “unsystematically.” IEP envisions that the market will price the risks of each one of these events differently. If robust bidding occurs, then this may sort itself out. However, if the individual solicitations solicit zero bids, what happens?
- a. **Comments on index price.** See comments above.
 - b. **Comments on competitive solicitation process.** See above.
 - c. **Comments on other changes potentially needed to CPM.** See comments above.
 - d. **Comments on CPM price.** See comments above.
 - e. **Comments on supply-side market power mitigation measures.** The CAISO has proposed a bid-offer cap to mitigate market power. In addition, the CAISO indicates that it believes that “market power is likely to exist in a competitive process for residual capacity...” (p. 65) In situations where market power exists, then the CAISO’s existing market power mitigation authorities apply.

IEP is concerned, however, that the CAISO not design a program that dis-incentivizes LSEs from buying RA products forward and, thereby, exacerbating the likelihood that market power conditions arise. Compensation for backstop procurement conducted by the CAISO should be priced at a level that incentivizes forward contracting such that the CAISO never needs to exercise its backstop procurement authority, except in truly unique and extra-ordinary circumstances. We are not convinced that the proposal to date accomplishes this outcome.
 - f. **Comments on demand-side market power mitigation measures**
 - g. **Other comments.** The Straw Proposal alludes to the potential need for resource-specific offer caps in the CAISO-market. IEP is aware that resource-specific offer caps are included in some eastern markets. However, consideration of resource specific-offer caps must be considered in the context of the whole market, and the entirety of the mechanisms available for resources to recover their costs of operation and realize a just and reasonable rate of return. Eastern markets are designed and administered in a very different fashion than the CAISO

market(s), and it may not be appropriate nor reasonable to select a single attribute from one of the eastern markets (e.g. resource-specific offer caps) and assume its appropriateness and reasonableness for CAISO market(s).