

INDEPENDENT ENERGY PRODUCERS

To: CAISO
From: Steven Kelly, Policy Director
Date: February 18, 2014
RE: Reliability Services Initiative

The Independent Energy Producers Association (IEP) offers the following comments on the CAISO Reliability Services Initiative Issue Paper released on January 28, 2014. The Initiative was discussed at the stakeholder meeting on February 4, 2014. The Initiative is designed to provide a “Holistic look at the CAISO’s 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 Initiative is divided into three key areas of emphasis, namely, (1) market design changes to create an efficient market mechanism to procure backstop capacity, (2) conforming changes to various RA process rules, and (3) enhancements to rules specific to RA resources.

Below, IEP addresses in the two main aspects of the proposed Reliability Services Initiative.

Market Design Changes to Create Market Mechanisms to Procure Backstop Capacity:

IEP views the current capacity procurement mechanism (CPM) as working well. It is rarely relied on by the CAISO for backstop procurement, which suggests that the current CPM backstop mechanism is serving its primary purpose of incenting forward RA procurement by LSEs in a manner that meets the needs of the CAISO. Furthermore, this suggests that the total costs associated with the current CPM are relatively low.

On the other hand, IEP has strong concerns with the underlying premise and primary objective of the CAISO Reliability Services Initiative: namely, replacing the existing CPM with a CAISO “market-based backstop procurement” mechanism. IEP’s view is quite simple in this regard: either the CAISO has a capacity market, in which case a backstop CPM is not needed (except in limited exceptional circumstances, perhaps) or, alternatively, the CAISO has backstop procurement authority in which case the compensation mechanism by necessity must be set at an administratively determined rate since no market exists to set a price for this product. In light of this observation, the CAISO’s proposed “market-based backstop procurement mechanism” seems illogical and non-sensical.

Rather than pursue the proposed path outlined in the Initiative, IEP recommends a far more expedient and useful exercise: namely, simply seek FERC’s approval to extend the existing CPM mechanism and clarify, if necessary, that the existing CPM will be employed in all situations in which the CAISO’s determines system, local, and/or flexible RA resources are deficient including a multi-year forward framework as appropriate.

Conforming Changes to Various RA Processes/Enhancement To Rules:

The current one-year RA obligation (system, local) is morphing into a multi-year RA obligation (system, local, and flexible). The CAISO proposes to standardize eligibility criteria and must-offer requirements related to RA, particularly for use-limited resources. This means defining what a standardized product means; determining the scope of eligibility; and, determining the RA capacity availability incentive mechanism rules and pricing. It goes without saying, hopefully, that the CPUC RA “counting” protocols should be aligned with the CAISO’s operational needs in this context.

IEP agrees with the need to do this. We are frustrated, however, by yet another stakeholder process to achieve these ends. Recently, IEP raised concerns at the CPUC about the efficiency and apparent redundancy of stakeholder proceedings at the CPUC and the CAISO. *[see attachment]* The 2014 calendar already is loaded with a number of vitally important, time-consuming, complex proceedings that address capacity matters. These include two distinct Long-Term Procurement Proceedings (LTPPs); an on-going RA proceeding in which two critical issues are being addressed, namely integration of flexible capacity into the RA framework and consideration of a multi-year forward RA obligation; and, the myriad other issues addressed in the context of the Joint Reliability Plan. *This raises the pertinent question: Is the proposed new Initiative necessary or can these issues be addressed in on-going proceedings?*

IEP’s observation is that the CAISO currently has a stakeholder process for addressing flexible capacity and an associated must-offer obligation (i.e. FRACMOO). In addition, we already have a protocol for system and local RA. This suggests that the remaining issues that need to be addressed are (a) whether to replace the current one-year RA obligation with a multi-year forward RA obligation, and (b) determine whether any substantive changes in eligibility and must-offer rules are necessary in light of these changes. As to eligibility and the counting of RA resources, the CPUC (and the CAISO) have agreed to protocols related to most resources except for so-called preferred resources and “use limited” resources. To address this issue, the CPUC has an on-going proceeding to use Effective Load Carrying Capacity (ELCC) analysis to determine Qualifying Capacity (QC) for wind, solar, supply-side demand response and storage resources (R. 11-10-023). *This raises another pertinent question: Can this CPUC proceeding be expanded to address QC for any remaining preferred resources and/or use-limited resources?*

Prior to moving forward on this new Initiative, IEP requests that the CAISO delineate, in coordination with the CPUC, exactly what issues are to be addressed in the proposed new Initiative that are not (and cannot) be addressed elsewhere. IEP’s concern is that redundant and overlapping processes create inefficiencies that are a burden for stakeholders to bear, and foster disconnected policies and/or market rules.

We appreciate the CAISO’s attention to our concerns.