

Submitted By	Company	Date Submitted
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NRG appreciates the CAISO developing and presenting its residual procurement market mechanism ("RPMM") proposal. The CAISO faces a difficult task – designing a capacity market in which demand participation likely will be carefully controlled, yet one that produces meaningful price signals. This is a tall order. Whether such an outcome is even possible should be part of the early discussions. If the consensus is that it is not possible, the CAISO should focus its and stakeholders' energies on other aspects of this initiative.

### **COMMENTS ON SCOPE**

The CAISO has indicated it is seeking feedback on these things:

- [the scope related to the residual procurement section.](#)

The CAISO has also proposed this specific scope for the RPMM effort:

- Create a durable residual procurement mechanism that would replace the current capacity procurement mechanism (CPM) when it expires
- Simplify and increase efficiency of residual procurement, replacement, and substitution process

With CPM expiring on a known schedule (2/16/16), NRG agrees that the CAISO and market participants must begin work to develop a successor mechanism. NRG is skeptical that a voluntary market mechanism could be designed to replace CPM and sees extending the CPM – largely as it exists – as the most viable alternative. NRG adds the phrase "largely as it exists" because NRG's experience indicates that the additional transparency into designation that NRG expected to occur as a result of the 2011 CPM settlement has not materialized to NRG's satisfaction, and any discussion of extending CPM must include a discussion about how to achieve that additional transparency.

- [whether the ISO should initially move forward with one idea or move forward with several ideas concurrently in draft straw proposal](#)

As it noted in its comments on the issue paper in this initiative, given the typical unsystematic nature of backstop procurement (limited to exceptional dispatch or significant events), NRG remains skeptical about the value of investing a lot of effort in a process to design a voluntary market-based residual procurement mechanism that could not be used for unsystematic procurement. Unsystematic procurement typically does not lend itself to a market mechanism because of (1)

the timing of the need and (2) the limited pool of resources that can meet the procurement needs, which raises market power concerns. NRG's skepticism notwithstanding, given the time frame for this initiative, it would be more efficient to move forward with multiple proposals rather than exploring individual proposals in a serial fashion.

- which mechanisms the ISO should continue exploring

While NRG does not object to exploring any and all market-based mechanisms, NRG is skeptical that it will be possible to develop a voluntary auction that will produce meaningful price signals.

- analysis that would be helpful to have when designing a durable residual procurement framework

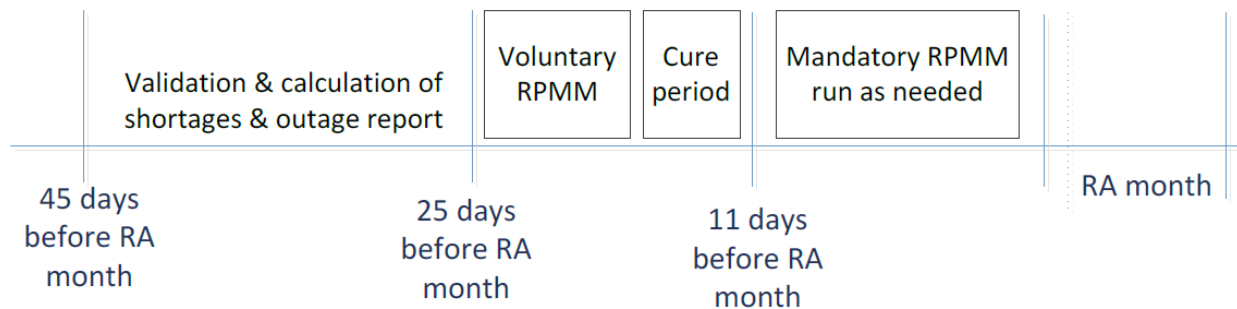
As noted below, the CAISO should present information on the amount and nature of deficiency that would be subject to its proposed market mechanism.

- anything else, including additional or more specific mechanism proposals

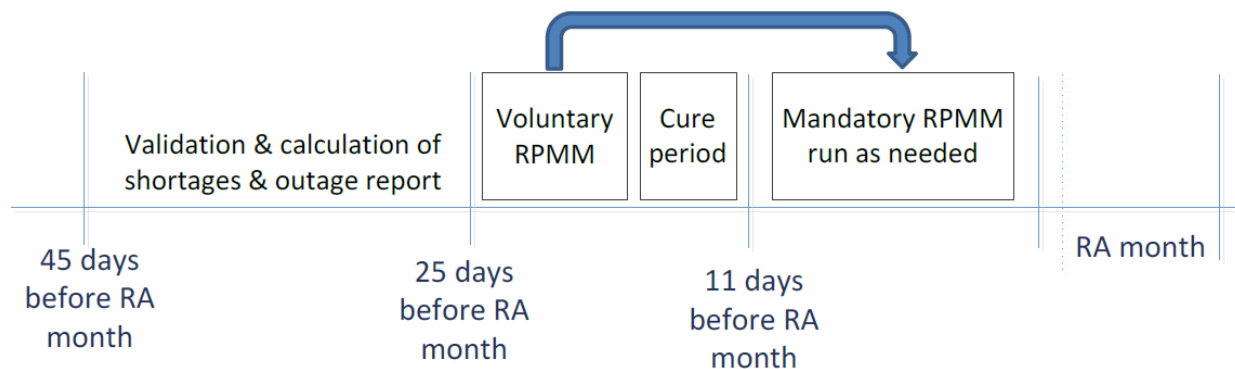
No comment.

### **Comments on proposed CAISO RPMM**

The CAISO has offered this construct for integrating a voluntary residual procurement market mechanism ("RPMM") into the RA showing cycle:



The CAISO has also suggested that the supply bids submitted in the voluntary RPMM could be carried over to be used in any "unsystematic" capacity backstop procurement:



At the February 24 workshop, the CAISO suggested that suppliers could be paid as-bid to encourage them to offer into this auction.

NRG offers these comments on this proposal:

- Given that it is proposed to take place after the RA showings that are made at 45 days prior to the delivery month, the voluntary RPMM that the CAISO proposes is limited to resolving deficiencies in the RA showings. The proposed voluntary RPMM is not available to allow LSEs to meet their RA obligations, even in part, *prior* to the showing. This makes it not only a *residual* procurement market mechanism (in i.e., not all of the RA obligation would clear through this mechanism), but a *residual backstop* procurement market mechanism. Further, because there is a cure period provided for *after* the RPMM, not even the amount of any deficiency would be guaranteed to clear through this mechanism. The limited volumes that are almost certain to clear through this mechanism suggest it will be of dubious value.
- To get a sense of how much demand might actually clear through this mechanism, NRG requests that the CAISO provide historical information on the showing deficiency amounts that the CAISO has observed since the implementation of the scheduled outage replacement requirement.
- Assuming that any deficiency arises because of an LSE has not provided replacement capacity for a scheduled outage (and not because the LSE's showing was deficient, a situation that seems highly unlikely), the need for and suitability of replacement capacity would likely be locational. If that is the case, then the pool of suppliers and/or resources that could submit bids for capacity that could meet this deficiency would be limited. That, in turn, would surface market power concerns about any "pay as bid" structure, and whether bids from

the voluntary RPMM could be used for unsystematic procurement.

## **COMMENTS ON OTHER RELEVANT ISSUES**

**Reducing the term of a CAISO backstop designation.** At the February 24 meeting, as part of the discussion about how the CAISO's Scheduled Outage Replacement Requirement, CPUC staff noted how having a designation term of less than 30 days might facilitate the provision of replacement backstop capacity where the need arises from a scheduled outage of less than 30 days. CPUC staff also seemed to be in favor of the CAISO having a backstop authority to allow it to provide a designation shorter than 30 days. The CAISO has proposed to be able to provide a capacity backstop designation of less than 30 days; FERC rejected that proposal.<sup>1</sup>

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<sup>1</sup> November 25, 2012 Order in ER12-2669. (141 FERC ¶ 61,135 at P 70-74.)