Submitted By	Company	Date Submitted
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The activities that the CAISO has identified for the Reliability Services Initiative[1] are:

For Phase 1:

1. Create durable CPM pricing mechanism for backstop capacity procurement

   Items the CAISO deems to be within scope for this activity are:

   - Criteria for determining resource eligibility and the amount of resource capacity that will satisfy the reserve margin
   - Plans developed by the load serving entities that identify how they have met their resource adequacy requirements through a portfolio of resources
   - Rules under which the resources identified in the plans are made available to the ISO market, including outages and replacement rules and bid insertion
   - A backstop procurement program

2. Standardize eligibility criteria and must-offer requirements for local, flexible, and system RA resources as needed

3. Enhance incentive mechanisms for RA resource market participation

The CAISO envisions that Phase 1 issues would be submitted to the CAISO Board for approval in December 2014 or in Q1 2015.

The activities the CAISO envisions for Phase 2 are:

1. Update the CPM to include multi-year backstop procurement authority

2. Revaluate need for risk-of-retirement backstop procurement authority

NRG offers these initial comments on these activities.

Phase 1 Activities. NRG supports clarifying and standardizing:

1. The nature of the offering obligation that attaches to capacity that satisfies system, local and flexible obligations.

[1] The description of these activities is taken from the CAISO's Presentation for the February 4, 2014 Reliability Services Initiative Meeting - http://www.caiso.com/Documents/Presentation-ReliabilityServicesIssuePaper.pdf.

2. How CAISO standard capacity product rules apply to resources that meet system, local and flexible capacity requirements.

3. The rules for how various kinds of resources count for meeting system, local and flexible capacity requirements.

NRG's comments on specific activities within this initiative follow.

Applying SCP rules to demand response. In 2009, FERC granted the CAISO what was intended to be a *temporary* exemption from applying SCP rules to certain resources, including demand response. In the same order, FERC directed the CAISO and its stakeholders to "…***diligently work toward a sunset [of the exemption] in a timely manner.***"[2]

At the February 4 meeting, the CAISO indicated that it intends to work to apply SCP rules *only* to *supply-side* demand response resources in this initiative. NRG opposes this limited application of the SCP rules to demand response. Nothing in FERC's June 26, 2009 order on SCP could be taken to limit the application of SCP rules only to supply-side demand response. Further, such a limited application would be inconsistent with the "comparable treatment" principle on which the Reliability Services effort is founded.[3] Finally, given (1) that approximately 3,000 MW of demand response counts towards meeting RA requirements, and (2) the frequently lackluster performance of some DR programs as noted in the CPUC's May 1, 2013 Commission Staff Report on *Lessons Learned From Summer 2012 Southern California Investor Owned Utilities' Demand Response Programs,*[4] NRG would expect the CAISO to seek to apply SCP rules to all DR programs to ensure those programs are performing their RA duties as required.

Requiring system capacity within a local area to be replaced with capacity within the same local area. NRG strongly supports eliminating the practice that system capacity within a local area must be replaced with capacity within that same local area. This practice effectively turns system capacity into higher quality local capacity without the seller deriving any of the benefits of that conversion.

Clarifying the rules around the amount of capacity given a CPM designation. NRG expected that the 2011 CPM Settlement would provide greater transparency with regards to the amount of capacity that the CAISO was relying on when providing an Exceptional Dispatch (ED) CPM designation. For example, while the CAISO may ED a non-RA unit to its min load level, if the CAISO is doing so to position that unit to be able to ramp above its minimum load level following a contingency, the CAISO is relying not just on the unit's minimum load amount, but on the greater amount of response capability, and, correspondingly, is relying on a greater amount of capacity than just the minimum load level. However, in 2013, NRG experienced several situations in which the CAISO EDed a unit to its minimum load level and appeared to be relying on non-RA capacity above that minimum load level to be able to respond to a contingency, but provided no CPM designation to the affected units. Such events are, to NRG,

[2] 127 FERC ¶ 61,298 at P. 58 (emphasis added).

[3] Issue paper at 11.

[4] Available at http://www.cpuc.ca.gov/NR/rdonlyres/523B9D94-ABC4-4AF6-AA09-DD9ED8C81AAD/0/StaffReport_2012DRLessonsLearned.pdf

completely inconsistent with the principles underlying the 2011 CPM settlement. This initiative must include a discussion of specific rules that deal with identifying the amount of capacity that the CAISO is relying on – not just dispatching energy from - that could give rise to a CPM designation. Such an effort would be completely consistent with the "transparency" principle that this initiative is founded upon.[5]

Development of a "market-based" capacity backstop mechanism. Noting the February 16, 2016 expiration date for the CPM, the CAISO proposes, as part of Phase 1 of this initiative, to develop a mechanism to replace CPM. The CAISO has, at various times, used the adjectives "durable" and "market-based" to describe the qualities of this mechanism to replace CPM.

At the February 4 meeting, the CAISO made clear that a mandatory centralized market to replace the CPM was completely "off the table". While the CAISO asserted that a voluntary market might still be on the table, and could serve as the replacement for CPM, NRG does not support a voluntary market as the replacement for CPM. Load's participation in such a market would be highly controlled by the CPUC, and the value of any price signal that such a voluntary market might provide would be dubious at best.

As NRG notes in a November 25, 2013 reply brief submitted in ER11-4081, dealing with proposed buyer-side market power mitigation rules for the Midcontinent Independent System Operator's RA program:

> In the first Planning Resource Auction ("PRA") for the 2013-2014 Planning Year, 96% of offers were part of a Fixed Resource Adequacy Plan ("FRAP") or Self-Scheduled into the auction at $0.00 MW/Day; *i.e.*, offered into the market as price-takers. While these resources are likely recovering their full levelized cost of new entry from ratepayers, the price they showed the auction was $0. This resulted in a clearing price of $1.05 MW/Day for the 2014-2014 PRA. More recently, the Transitional Planning Resource Auction ("TPRA") for the MISO Southern Region produced an Auction Clearing Price of $0.00 MW/Day. So long as the Commission requires generators to participate in the auction, but does not impose symmetrical purchasing requirements on buyers, this type of uneconomic behavior will continue.[6]

Given NRG's skepticism about the value of such a voluntary market, it is not clear that engaging in what will certainly prove to be a long and difficult process to develop a design for such a highly controlled voluntary market is the best use of the CAISO's and stakeholders' time and resources.

As the CAISO notes, it can engage in backstop procurement for these reasons:[7]

1. Insufficient local capacity in a load serving entities' annual or monthly resource plan

[5] Issue Paper at 10.
[6] *Reply Brief of the NRG Companies*, submitted November 25, 2013 in ER11-4081 at page 12.
[7] Issue Paper at 13.

2. Collective deficiency of capacity in a Local area
3. Insufficient system capacity in a load serving entities' annual or monthly resource plan
4. Significant event
5. A reliability or operational need for an Exceptional Dispatch
6. Risk of retirement
7. Insufficient flexible in annual or monthly resource plan (pending)
8. Multi-year insufficiencies[8]

To NRG's knowledge, the CAISO has only issued CPM designations for reasons (4) and (5). The nature of these two reasons, along with (1), (2) and (6), points to the need to issue a CPM designation to a specific resource, or at least to issue a designation within a limited subset of resources. As such, these reasons do not lend themselves to a "market-based" solution. Additionally, reasons (4) and (5) happen in real time, and for that reason do not lend themselves to designations being developed through some sort of "market-based" mechanism.

Reasons (3) and (7) better lend themselves to being satisfied through some sort of market-based mechanism; however, if that mechanism is a voluntary market in which load's participation is carefully controlled, it does not seem likely those markets will yield meaningful, repeatable or even compensatory prices.

Multi-year forward insufficiencies would lend themselves very well to some sort of auction process; however, as the CAISO noted at the February 4 meeting, it would not be prudent to move forward to design some multi-year forward CAISO process until it is clear where the CPUC is moving with regards to its rulemaking considering multi-year forward RA obligations.

For all of these reasons, NRG is skeptical about whether investing vast amounts of time and resources to explore a voluntary market mechanism is a useful and efficient exercise.

The CAISO has scheduled a market design workshop to February 24. NRG looks forward to participating in that workshop. Nevertheless, NRG remains skeptical that CPM replacement mechanisms that focus on "voluntary" participation will serve much useful purpose.

Modifying incentive mechanisms for system, local and flexible capacity. It is clear that the same metrics that the CAISO used to assess and encourage the availability of system and local RA capacity will not prove useful to assess and encourage the availability of flexible capacity. Further, as NRG has asserted before, using the CPM backstop price as the penalty rate for non-availability in all months often exposes suppliers of RA capacity to penalties that are completely disconnected from the commercial value of that capacity. NRG supports re-examining the incentive mechanisms for resources as part of this initiative.

Eligibility criteria/Standardized products. The CAISO indicates that, as part of the effort to move towards more standardized products, it will examine the criteria that resources must satisfy (things like hours of availability, energy limitations, operational characteristics) in order

[8] Presentation at 19.

to provide standard RA products (presumably, system, local and flexible RA capacity). The effort to standardize products and develop clear eligibility criteria is critical in light of the Joint Reliability Plan's proposal to rely on preferred resources to meet half of the post-SONGS local reliability needs.

Coordinating with R.14-02-001. The CPUC has just released its rulemaking which contemplates three tracks: (1) considering multi-year forward resource adequacy obligations; (2) considering a long-term planning assessment that would focus on the period between RA procurement and LTPP; and (3) considering a policy position with respect to a CAISO market-based capacity backstop procurement mechanism to replace the CPM. This proceeding is so intertwined with the CAISO's Reliability Services Initiative that all involved parties, the CAISO, CPUC, CEC and market participants, would be well served by the CAISO and CPUC staffs developing a coordinated schedule for the two initiatives.