

Submitted By	Company	Date Submitted
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**The question of what demand participation will be allowed overshadows questions about auction design elements.** At the March 27 workshop, the CAISO proposed an auction design in which the auction would be held *prior to* the annual Resource Adequacy (RA) showing. Conceptually, holding an auction prior to a showing holds much more promise for creating a meaningful auction process than confining the auction to the role of addressing procurement deficiencies. However, at the March 27 workshop, CPUC staff provided no indication about whether the CPUC would allow any procurement by the Load-Serving Entities (LSEs) subject to its jurisdiction to count towards their RA obligations. The uncertainty about to what extent LSEs will be able to count procurement in a CAISO auction towards meeting their RA obligations completely overshadows other auction design issues. This uncertainty also creates a potential “chicken and egg” circularity in the process, namely, that it is reasonable to expect that the CPUC will not indicate to what extent it will allow participation in the auction process without knowing what the auction design is, but designing an auction without knowing what kind of LSE participation will be allowed will be a speculative and potentially frustrating exercise. To the extent that the CAISO and CPUC can address this circularity by developing and following a joint schedule that will foster the most efficient process possible and give the earliest possible indication as to whether the arduous process to create an auction will be in vain or not – the better off all participants will be. NRG hopes that the CAISO and CPUC will present a joint schedule for the RSI process and the rulemaking R.14-02-001 process at the April 16 pre-hearing conference in that rulemaking.

**Term of backstop procurement.** At the March 27 workshop, CPUC staff suggested that it may be beneficial to reduce the term of a backstop designation (e.g., to address daily gaps that may result from scheduled outages). From NRG’s perspective, any discussion intended to reduce the backstop designation term has to be held in the context of more sweeping and fundamental modifications to the entire RA process. As FERC noted, merely adding an obligation to replace capacity on scheduled outages is not sufficient reason to change the current term of a CPM designation. NRG does not object to a discussion about the term of backstop designation as part of a larger discussion about procurement structures and obligations, but does object to a discussion about reducing the CPM designation terms held in isolation.

**The RSI should include a discussion about identifying how much non-RA capacity the CAISO is “relying on”.** As NRG noted in prior comments, while NRG believed that the issue of transparently identifying how much non-RA capacity the CAISO is “relying on” had been advanced, if not resolved, in the December 2011 CPM settlement, since that settlement was implemented NRG has encountered situations in which it reasonably believes the CAISO has relied upon capacity beyond the RA contracted amount, but in which the CAISO did not provide a CPM designation. NRG urges the CAISO to include this issue – providing market participants with a way to transparently identify what non-RA capacity the CAISO has relied on so that market participants can validate a CPM designation or dispute a designation that the market participant feels should have been made but was not – in the scope of the RSI.

**Comments on the proposed “split” auction.** As noted above, the “split” auction design, in which a voluntary auction is held prior to a showing, and a mandatory auction held after a showing to address any deficiency, is an improvement over the proposed design that would defer the first auction until after a showing. Nevertheless, the value of a pre-showing auction – any auction, in fact - will depend on the amount of participation. Furthermore, if any deficiency that remains for the mandatory deficiency auction can be cured only by a particular unit or a limited set of units, it would seem unlikely that the supply bids in the voluntary auction could be carried over and used in the mandatory auction without the application of some market power mitigation screen. Given the highly unsystematic nature of backstop procurement to date, the highly uncertain nature of load participation in the auctions, and the concerns over the difficulty of crafting a balanced application of supplier-side and buyer-side market power mitigation, it will be a delicate and difficult task to design a sufficiently deep auction that will yield a viable “market-based” backstop price.