

Comments of Pacific Gas and Electric Company
Reliability Services Initiative – Working Group Meeting 2/24/14

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Reliability Services Initiative (RSI) Working Group Meeting, held on February 24, 2014.

The working group provided a welcome opportunity to discuss the current backstop procurement mechanism, and explore problems this initiative seeks to resolve and generated ideas for how to address these problems. PG&E recommends these lines of work continue. These comments focus on the following:

- The CAISO should examine an extension of the current Capacity Procurement Mechanism (CPM), even as it pursues other solutions.
- PG&E requests the CAISO include in its straw proposal additional data and analyses needed to further detail the problem.
- PG&E recommends the CAISO examine multiple different design ideas and weigh the merits of each, in the RSI straw proposal.¹
- PG&E reiterates the points we raised in earlier comments, namely that the originally proposed scope is likely too large for the proposed schedule, that CPM replacement should be the primary driver of this initiative, and that coordination and alignment with the California Public Utilities Commission (CPUC) is necessary.

¹ The alternatives suggested in these comments differ somewhat from those presented by PG&E at the February 24th, 2014, workshop. Presentation source: Griffes, Peter, "RSI Considerations", Feb. 24, 2014.
http://www.caiso.com/Documents/PG_EPresentation-ReliabilityServices-WorkingGroupFeb24_2014.pdf

1. The CAISO should examine an extension of the current CPM, even as it pursues other solutions.

The current CPM is a well-understood, effective, and relatively simple reliability tool. PG&E recognizes that while developing an administratively priced CPM is the most straight-forward option, it will not be an easy task. Various incarnations of this tool have been developed; agreeing on the details of the tool or formulating a basis for an administrative price can be difficult, contentious and time-consuming.² That said, PG&E believes that an extension is feasible.

The CAISO should begin the process of extending this tool now, recognizing that other solutions may prove unnecessary, infeasible, or cannot be finalized before the expiration of the CPM.

2. Additional data should inform the RSI stakeholder process and be provided in the straw proposal.

PG&E thanks the CAISO for the data and analyses it has provided, which have helped to clarify the perceived problems and have informed discussion.³

Further data and analyses should be included along with the straw proposal. This data should help stakeholders to scale a solution that fits the problem. PG&E suggests the following data be collected and provided:

Purpose of Data or Analysis	Data or Analysis Requested
Understand the role of CPM today and in the future	<ul style="list-style-type: none">• In support of the CAISO's scope and potential 2-step auction design, the CAISO emphasized that future unsystematic CPM use could be higher than it is today. The CAISO should provide further analysis to support and gauge the magnitude of this forecasted increase.• A comparison of current CPM use versus forecasted future CPM use.

² PG&E understands that extending the CPM may take many forms, and that the Flexible Resource Adequacy (RA) and the related categories may complicate the task of establishing administrative prices for backstop capacity procurement.

³ "Reliability Services: Market Mechanism Working Group", CAISO presentation, February 24, 2014, pps. 25-27, for instance.

Further understanding the need for system RA Must Offer Obligation (MOO) standardization and new incentives for system RA energy market participation	<ul style="list-style-type: none"> • Assessment of frequency and magnitude of system RA/capacity/energy shortages since 2011. • Evaluation of impacts of new flexibility process/market enhancements (Flex RA, FERC Order 764, PIRP changes, Flex Ramping Products) with any forecasted future system RA / capacity shortages • Appraisal of expected use of CPM (or successor) back-stop by CAISO if no changes are made to current generic RA MOO or incentives for generic RA energy market participation.
Assessing market power for unsystematic CPM use	<ul style="list-style-type: none"> • For past unsystematic events, generically the size of the resource pool available for the CAISO to choose from to meet its reliability needs. • Design options for market mitigation, particularly in local areas. • Design options for formulating mitigated capacity bids.
Ability to address monthly cure needs	<ul style="list-style-type: none"> • Monthly cure MWs before and after the CAISO RA Replacement Rule for Planned Outages was implemented • Levels of cure needed under different market conditions (e.g. spring vs. fall) for flexible and system RA.

3. The CAISO should include multiple solutions in its straw proposal for stakeholder consideration.

In response to the CAISO's request for input regarding whether to pursue one design or multiple design ideas in the issue paper, PG&E recommends the latter. A multi-pronged approach will provide a useful means for comparing and contrasting different solutions. Further problem definition, data, and updates regarding CPUC-CAISO alignment should further inform the design scale, so it behooves the CAISO to use a broad approach at this time.

The CAISO and stakeholders should adopt a framework to evaluate the efficacy of various design proposals in meeting specific problems the CAISO is trying to solve. At minimum, the framework should consider each proposal's level of complexity against its ability to meet the stakeholder agreed-upon and clearly defined problems.

As a starting point, PG&E recommends four design ideas for consideration. These ideas range in complexity and in comprehensiveness. Some ideas seek to adjust rules so as to avoid issues while others respond to perceived issues with new ideas.

- *Design idea #1:* Extend the current CPM. This approach is simple and arms the CAISO with a key reliability tool. It could avoid excessive stakeholder process churn and could conceivably fit with the CAISO's proposed Phase 1 schedule. Formulating a means to set an administrative price could be particularly challenging. As recommended above, PG&E views this option as a necessary, no-regrets step due to the short timeline.
- *Design idea #2:* Modestly adjust monthly replacement rules for scheduled generation outages, consider incentives to promote oversupply in monthly showings, and develop an administratively-priced CPM. The CAISO espoused that daily replacement needs and rules cause challenges and potential transaction costs for Load Serving Entities (LSEs) in meeting LSE RA obligations. With adjusted replacement rules and more incentives to oversupply in the monthly showing, short-term transaction needs could potentially be mitigated. PG&E notes that these changes may be difficult to devise, particularly an incentive to oversupply monthly RA capacity. Lastly, by extending the CPM, the CAISO retains its tool for unsystematic capacity needs.
- *Design idea #3:* A voluntary auction during the cure period with capacity deficiency charges for LSEs that are short at the end of the cure period, paired with an administratively-priced CPM. The voluntary auction would serve to cure both individual and collective deficiencies. Meanwhile, an administratively-priced CPM would apply to capacity designations after the year-ahead or month-ahead voluntary auction, either due to individual/collective deficiencies or unsystematic events.
- *Design Idea #4:* the CAISO's proposed two-step auction. This approach provides the CAISO with a chance to price the CPM through voluntary supplier bids. If competitive, such bids could yield more tailored pricing

for unsystematic CPM usage by awarding CPM designations to the lowest bid units that meet the CAISO's reliability requirements determined by the nature of the unsystematic event. Market power concerns are relevant. If market power or the pay-as-bid structure proves untenable, this idea holds less merit, as the reasoning for the CAISO to host an auction becomes less clear.

4. PG&E reiterates its concerns from previous comments⁴ regarding the initiative scope and schedule, and the importance of CPUC alignment.

PG&E believes that the CAISO's Phase 1 timeline will require stakeholders to pursue a less complex solution because more complex solutions will likely require more time than is provided for design and review. The CAISO and stakeholders should consider the four design ideas suggested by PG&E and consider which potential options could realistically be completed in the proposed timeframe.

CPUC-CAISO alignment continues to be a key aspect of this initiative. Without alignment, PG&E and other LSEs may face undue cost risks and procurement and compliance complexity. Stakeholders need a clear understanding of the range of solutions that can be agreed upon by both the CPUC and CAISO.

⁴ "Comments of Pacific Gas and Electric Company, Reliability Service Initiative – Issue Paper", February 18, 2014.
<http://www.caiso.com/Documents/PGComments-ReliabilityServices-IssuePaper.pdf>