



Comments of Pacific Gas and Electric Company
Reliability Services Initiative – Working Group Meeting 3/27/14

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). In these comments we focus on issues from the most recent Working Group Meeting, held on March 27, 2014 and also reiterate a number of PG&E’s key points from earlier comments.

The working group enabled the CAISO and stakeholders to further discuss market mechanism options to replace or augment the current Capacity Procurement Mechanism (CPM). PG&E sees value in continuing these conversations, and offers the following comments directly related to the working group meeting:

1. Continued coordination between the CAISO and the California Public Utilities Commission (CPUC) is key to ensuring jurisdictional alignment and good market outcomes.
2. The CAISO should explicitly define a trigger point at which it would request a CPM extension at the Federal Energy Regulatory Commission (FERC), although PG&E encourages a robust process to develop solutions.
3. The CAISO should begin addressing the product standardization and incentive mechanism aspects of Phase 1 before proceeding too far with the design of the backstop mechanism. PG&E is concerned about over-standardizing products, particularly for system RA capacity.

PG&E also reiterates its earlier comments:

4. The CAISO should work with stakeholders to define the reliability problem(s) it should solve to ensure this initiative’s scope addresses the correct issues.

5. PG&E requests the CAISO include in its straw proposal additional data and analyses needed to further detail the problem(s).

1. Continued coordination between the CAISO and the CPUC is key to ensuring jurisdictional alignment and good market outcomes.

PG&E appreciates the CAISO's and CPUC's efforts to coordinate across their capacity-related proceedings, the RSI stakeholder initiative and the Joint Reliability Plan (JRP) CPUC proceeding. However, it was clear at the meeting that the CAISO and the CPUC had different interpretations of the JRP's provision relating to a CAISO-run voluntary forward procurement auction. Important questions remain about the appropriate timing of a voluntary auction as it relates to the CPUC Resource Adequacy (RA) showing timeline, as well as the appropriate procurement context of the voluntary auction within the RSI- one year ahead (Phase 1) or multi-year ahead (Phase 2) timeframe.

The CAISO and the CPUC should continue their dialogue about the jurisdictional and design implications of such a market mechanism, in order to provide more clarity to stakeholders in the evaluation and development process. Stakeholders need to clearly understand the range of solutions that can be agreed upon by both the CAISO and the CPUC. Without alignment, PG&E and other load serving entities (LSEs) may face undue cost risks and procurement and compliance complexity.

In addition to alignment on the substantive issues of the RSI, PG&E also encourages the CAISO and the CPUC to maintain alignment in their initiative/proceeding schedules. The CAISO has provided stakeholders with an RSI timeline through February 2016. It would be useful to understand how these key dates and milestone relate to the JRP schedule. For example, does the CAISO intend to wait to begin Phase 2 until after the CPUC makes a final a decision on multi-year RA? What are the CPUC milestones that will initiate the RSI Phase 2?

2. The CAISO should explicitly define a trigger point at which it would request a CPM extension at the FERC, although PG&E encourages a robust process to develop solutions.

Many RSI stakeholders, including PG&E, have recommended that the CAISO pursue an extension of the current administratively-priced CPM, either as a

permanent solution or to provide additional time to develop an alternative through the RSI. The CAISO has indicated it would be premature to request an extension from the FERC at this time. The CAISO has also indicated that significant progress on a replacement market mechanism needs to be made before it would seek a CPM extension, and only if the RSI does not produce a replacement in a timely manner. We agree with the CAISO that it would be premature to extend the administratively-priced CPM mechanism at this time, and that continuing the stakeholder process and discussions (including between the CAISO and CPUC) likely could produce solutions that effectively address these issues.

However, PG&E encourages the CAISO to identify the point at which a CPM extension would need to be pursued if certain design milestones are not met. Notwithstanding PG&E's support for the robust stakeholder process, given the complexity of the issues within the RSI's Phase 1 scope, it is certainly possible that the RSI could require more time than currently is scheduled. Planning ahead would help ensure that the CAISO's ability to backstop with CPM does not expire before a well-designed replacement mechanism can be put in its place.

PG&E does have significant concerns about the mechanics of the voluntary Reliability Services Auction (RSA), the ability to derive a reasonable CPM price from a voluntary auction, and potential conflicts with the existing CPUC resource adequacy process. It is not clear who would participate in the voluntary auction, and whether enough liquidity would exist to clear the voluntary auction at a meaningful price, or if the voluntary auction would clear at all. Furthermore, it is also not clear how the CAISO could appropriately use the voluntary auction clearing price, if a voluntary auction clears, to directly calculate a backstop price, or how the CAISO proposes the "offer cap" would be used to set the CPM price. The CAISO should also be mindful that the CPUC may limit its jurisdictional LSEs from participating in an auction that conflicts with its forward procurement rules. PG&E encourages parties to continue to explore market based solutions that meets both CAISO and CPUC objectives.

- 3. The CAISO should begin addressing the product standardization and incentive mechanism aspects of Phase 1 before proceeding too far with the design of the backstop mechanism. PG&E is concerned about over-standardizing products, particularly for system RA capacity.**

PG&E appreciates the CAISO scheduling a Working Group meeting on April 23, 2014 to discuss the product standardization and incentive mechanism components of the RSI. Given the inter-relationship between the capacity products, and the backstop mechanism through which these products will be procured, PG&E supports the CAISO's plans to develop these design elements concurrently.

PG&E has several concerns about the product standardization piece of the RSI, and remains skeptical of the need to reexamine the system RA product definition and Must Offer Obligation (MOO). PG&E looks forward to discussing this issue in the forthcoming working group meeting.

Reiterating earlier comments:

4. The CAISO should work with stakeholders to define the reliability problem(s) it should solve to ensure this initiative's scope addresses the correct issues.

At a high level, the CAISO laid out at the March 27 stakeholder workshop the continuing energy landscape transformation, more use-limited resources coming online, and the displacement of traditional resources as necessitating durable backstop procurement capabilities. PG&E appreciates the data and analysis provided so far in the working group process and would appreciate the CAISO providing more details about the specific reliability needs underlying each of the six items that the CAISO defines as in scope for the RSI.¹

Without fully laying out the CAISO needs and the scope of the issues, we find it difficult to address exactly what elements are needed and how complex a solution should be developed to address the CAISO's reliability needs. During the Flexible Resource Adequacy Criteria and Must Offer Obligation (FRAC-MOO)

¹ CAISO Reliability Services Initiative Issue Paper. Jan. 28, 2014.

1) Enhance the minimum eligibility criteria for system, local, and flexible RA capacity where needed.

2) Modify must-offer rules where required, in particular for use-limited resources, in order to standardize must-offer requirements for different technology types, as is feasible.

3) Create a durable CPM pricing market mechanism that would replace the current administrative price when it expires in February 2016.

4) Synchronize replacement and substitution rules with the new CPM pricing market mechanism as required.

5) Modify or create new incentive mechanisms for energy market participation for system, local, and flexible capacity.

6) Update the CPM to include multi-year backstop authority as well as evaluate the risk-of-retirement designation in the context of a multi-year forward RA procurement requirement.

initiative, a critical assessment of the flexible capacity needs emerged late in the stakeholder process, dramatically re-routing and better informing the design efforts. This outcome highlighted how a more rigorous review of the CAISO's challenges yielded a more appropriate consideration of solutions. PG&E looks forward to working with the CAISO to detail the specific problems associated with standardization, CPM replacements, and incentives that the CAISO seeks to resolve.

Such information would help address questions including:

- Why does the CAISO seek to further standardize capacity products?
- What reliability needs would be addressed by each of the standardized products?
- Is a voluntary RSA necessary to address this potential problem?
- Can CPUC adjustments to the RA program adequately mitigate some of the CAISO's reliability concerns?

5. PG&E requests the CAISO include in its straw proposal additional data and analyses needed to further detail the problem.

Additional data and analysis will help to shed light on the reliability issues facing the CAISO in the future, and will inform the design of a market based solution. PG&E reiterates the data request submitted in the previous round of RSI comments (March 7, 2014), including analysis related to:

- The role of CPM today and in the future
- The need for system RA MOO standardization and new incentives for system RA energy market participation
- Market power for unsystematic CPM use, and
- The CAISO's ability to address monthly cure needs.