

**Comments of The Utility Reform Network (TURN)
Regarding the CAISO's Reliability Services Initiative
Submitted March 7, 2014**

The Utility Reform Network (TURN) offers the following comments on the CAISO's Reliability Services Initiative (RSI), as requested on slide 65 of the CAISO presentation titled *Reliability Services, Market mechanism working group* (Presentation), which was discussed at a working group meeting on February 24, 2014.¹ TURN offers four major comments on the presentation and RSI in general.

Keep Phase 1 Simple! The CAISO presentation list simplicity as a key attribute of any new "market mechanism".² Yet the presentation suggests that Phase 1 itself will address complex topics that go far beyond the immediate need to address the expiration of the Capacity Procurement Mechanism (CPM) in February 2016.³ Many parties with widely divergent views expressed worries about the reach of the RSI. Such parties are concerned about various aspects of Phase 1's scope⁴ and/or point out that the scope of the RSI could overlap with other CAISO and CPUC initiatives.⁵ TURN believes the CAISO will serve the state best if it limits the scope of the RSI as discussed below, that is, focus on immediate, documented challenges that are not being addressed in other forums. In other words, TURN is urging the CAISO to also adopt "simplicity" as its mantra in scoping Phase 1 of this initiative.⁶

¹ This presentation is available at http://www.caiso.com/Documents/Agenda-ReliabilityServices-WorkingGroupFeb24_2014.pdf.

² *Id.*, slides 28 and 30.

³ For example, the presentation states topics such as "standardized[d] eligibility criteria and must-offer requirements for local, flexible and system RA resources" and "incentive mechanisms for RA resource market participation" (p. 4) and possibly "future procurement requirements" (pp. 24-27) will be considered.

⁴ See, for example, page 3 of SCE's presentation to the February 24 working group meeting, available at http://www.caiso.com/Documents/SCEPresentation-ReliabilityServices-WorkingGroupFeb24_2014.pdf. Other parties expressed concern about this matter orally at the February 24 workshop. See also comments the following parties made on the CAISO's January 28 Reliability Services Issue Paper: Calpine, p.1; CDWR, pp. 1-2; CMUA, pp. 1-2; CPUC (CPUC's Energy Division), pp. 2-3; NCPA, pp. 1-3; PG&E, pp. 5-6; and Six Cities, p. 1. These comments are available at <http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityServices.aspx>.

⁵ See the following parties' comments on the January 28 Reliability Services Issue Paper: AReM, pp. 1-2; CPUC ORA (CPUC's Office of Ratepayer Advocates), pp. 1-3; IEP p. 2; and PG&E, pp. 2-3. See footnote 4 for weblink.

⁶ TURN is less concerned at this time with the scope and schedule of the proposed Phase 2, which will apparently not begin for several months or more.

Limit Initial Scope to What *Needs* to be Done:⁷ The CAISO should limit the scope of Phase 1 of the RSI to what *needs* to be done in the near future. And what needs to be done is replacing the CPM before it expires on February 16, 2016. Though the CAISO and CPUC staffs have agreed in the Joint Reliability Plan (JRP) that such replacement should be “a market-based ISO backstop procurement mechanism,”⁸ the CPM could also be extended readily based on an administrative price. At least one other party with a direct interest in this issue sees this as an acceptable near-term solution.⁹ Further, the CAISO has not provided any information, at least in the RSI process, that anything else *needs* to be done by that date. TURN thus recommends the CAISO move forward with an effort to extend the CPM based on an administrative price.

TURN is open to the idea that other concerns can and should be addressed in Phase 1 of this initiative, provided that (a) some showing of an existing problem is made, (b) the problem is not being addressed in other CPUC and/or CAISO initiatives, and (c) a reasonable solution can be crafted within the next several months in Phase 1. Without presupposing any such problems exist, examples of such concerns and related policy changes might include: (a) increasing flexible capacity made available to the CAISO by changing self-scheduling rules to incent more flexible capacity to bid into the CAISO market, and (b) mitigating the capacity purchases made to comply with the outage replacement process by changing rules to encourage Load-Serving Entities (LSEs) to list more capacity on their RA showings.¹⁰ But the CAISO has provided no information to suggest that other topics -- such as “standardized[d] eligibility criteria and must-offer requirements for local, flexible and system RA resources” and “incentive mechanisms for RA resource market participation” as well as “future procurement requirements” -- merit attention in Phase 1.¹¹

⁷ This section responds to the first three questions posed at page 65 of the Presentation, which sought comments on the scope of the “residual procurement section,” whether the CAISO should move forward with more than one idea, and which mechanism(s) should be moved forward.

⁸ Joint Reliability Plan, p. 8.

⁹ IEP, p. 1.

¹⁰ SCE suggested that the challenges of the outage replacement rule (Presentation, pp. 15-16) could be mitigated by changing the penalty structure, which SCE contended encourages parties to show only the minimum capacity to comply with their RA obligations. See page 2 of SCE’s presentation to the February 24 working group meeting, available at http://www.caiso.com/Documents/SCEPresentation-ReliabilityServices-WorkingGroupFeb24_2014.pdf.

¹¹ See footnote 3.

Analysis Needed to Expand Scope:¹² If the CAISO wishes to propose any changes beyond a simple extension of the CPM, it should provide analysis of the problem(s) and proposed solution(s). The slides presented at the February 24 workshop do not meet this standard. For example, the figures and tables on slides 25 to 27 apparently show the amounts of flexible and inflexible RA capacity that were reported on LSEs' RA filings for select months. Though the presentation does not make clear the point of showing these data, TURN believes the CAISO is trying to make the case that procuring sufficient flexible capacity in the future may be a challenge. If so, these slides do not show any estimates of the chosen months' relative flexibility *need*, preventing any conclusion from being drawn about the sufficiency of flexible RA procurement. These pages also do not show the entire amount of flexible capacity that might be available to the CAISO from non-RA resources, another critical factor in assessing the importance of procurement sufficiency. Finally, by showing the amounts of flexible capacity that either had or had not made economic bids into the real-time market, the charts are apparently trying to show possible additional limits on the amount of flexible capacity that would be available to the CAISO. But such bidding behavior may be driven by market rules or incentives and may not be best addressed by residual market mechanisms.

CAISO Must Consider Legal Viability of Any Proposal: In pursuing the RSI, the CAISO must take heed of the potential corollary risks that even the most minimal CAISO-managed capacity procurement process poses for the state's policies and ratepayers. These concerns were described well in the comments the CPUC's Office of Ratepayer Advocates (ORA) filed on the CAISO's January 28 Issue Paper.¹³ TURN recognizes that a CAISO stakeholder process cannot provide the definitive answer to these concerns, and more generally that the outcome of the legal cases ORA described, and possibly other current and future cases, may not be settled for several years. However, the CAISO must recognize that the CPUC will consider the "legal viability" of whatever construct the CAISO proposes before deciding whether to support or oppose the

¹² This section responds to the fourth topic listed on page 65 of the presentation requesting analysis that would be "helpful". TURN is not responding to the fifth topic.

¹³ See pp. 6-9. ORA's comments are available at <http://www.caiso.com/Documents/CPUCORAComments-ReliabilityServices-IssuePaper.pdf>.

CAISO's filing at the Federal Energy Regulatory Commission.¹⁴ The RSI stakeholder process will not succeed without addressing these issues first.

TURN thus recommends the CAISO limit its projected scope for Phase 1 of the RSI to an extension of the CPM at an administrative price and other documented problems that can be resolved quickly and reasonably in Phase 1. TURN also advises the CAISO to address the legal viability of any CPM replacement or other policy it proposes as part of Phase 1.

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¹⁴ See Rulemaking (R.) 14-02-001, page 15, for a detailed list of issues the Commission will consider pertaining to "legal viability". The JRP, provided as Appendix A of R.14-02-001, states at page 10 "The details of the proposed design will, however, be significant to any CPUC decisions to modify the existing reliability framework, including supporting or opposing the ultimate form of the backstop as it is designed by the ISO, and the CPUC expressly reserves the right to oppose an ISO filing seeking FERC authority to institute a Reliability Services Auction".