

## Western Power Trading Forum Comments on Reliability Services Initiative Auction

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WPTF appreciates the opportunity to provide these comments, and we appreciate the ISO's willingness to explore RSI design features in a collaborative manner. We look forward to the ISO's white paper but offer the following limited comments on the ISO's presentation for the March 27, 2014 working group.

The increasingly strong limitations on IOU participation imposed by the CPUC leave virtually no capacity requirements to be filled via the Reliability Services Auction (RSA). The CPUC's limitations on what capacity LSE's could procure through the RSA, has essentially precluded any capacity of significance from being cleared through the RSA. Exceedingly small volumes will not produce a liquid RSA. We recognize that the ISO believes FERC has required a market-based mechanism to replace the current CPM design, but a market-based mechanism may be incongruous with the kind of auction the CPUC's limits may allow. We encourage the CAISO and PUC to align processes such that the ISO does not prematurely focus significantly more energy on developing auctions that may not be used by the largest LSEs, and we also suggest the ISO consider next steps regarding the CPM backstop if the CPUC continues with the policies it is currently proposing.

The ISO should propose how RSA price would be used for the Capacity Procurement Mechanism (CPM) if the CPM is not cleared through the RSA. The ISO indicated that one option is to derive the CPM price from the RSA for deficiencies that are not cured by LSEs, yet no mechanism has been outlined in any specificity. It is unclear how such a CPM would not be seen simply as an administrative price if the ISO procures CPM capacity above what LSEs procured through the RSA. We encourage the ISO to work into the heart of this issue, as this may end up being the crux of the CPM extension/replacement mechanism.

The ISO should work with the CPUC to clarify what "forward" means. At the working group meeting there seemed to be confusion between the ISO staff and the CPUC about what procurement would occur through RSA. The CPUC seemed to believe that "forward" was two or more years out, whereas the ISO was intending that the RSA would provide meaningful CPM prices, and a two-year out auction may not accomplish this. The ISO should clarify its conceptual design after conferring with the CPUC staff.

The ISO should provide some more information regarding what it is proposing regarding offer caps. The ISO's supply side market power mitigation slide (p. 68) raises the possibility of an offer cap, and the CPUC indicated that the cap should be applied even for reasons other than market power. The ISO should articulate how it might measure and apply market power tests, and whether it would accommodate the PUC's request for a non-market-power-based offer cap. It is unclear how any offer cap for other than demonstrated market power could be considered anything other than an administrative CPM. And if an administrative CPM is going to result from the process it causes us to question the value of the effort, especially in light of a limited RSA envisioned.