

Western Power Trading Forum Comments on RSI and CPM replacement

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WPTF has chosen to submit these comments on the CAISO's latest Reliability Services Initiative (RSI) proposal (Revised Straw Proposal, August 11, 2014) and its latest Capacity Procurement Mechanism (CPM) discussions (from the August 25, 2014 workshop) in a single document because key issues from the two initiatives are interrelated.

Generally, WPTF believes that the availability incentive mechanism and the CPM mechanisms should recognize that flexible service is a superior product to generic service. This would be consistent with the CAISO's implementation of a specific Flexible RA product. Further, WPTF would ultimately like to see market-based procurement mechanisms for RA replacement and CPM. However, given that the CPUC has not yet authorized a multi-year RA requirement for LSEs, and given the limited number of CPM designations for insufficiency, we do not expect a sophisticated CPM auction mechanism to be particularly valuable at this time.

Rather, given the limited impact of the CPM mechanism at this time and the limited premium that Flexible RA is commanding during these initial years of FRAC MOO, WPTF is supportive of considering alternative, more simple, approaches.

Regarding the Availability Incentives Mechanism, whereas WPTF believes added incentives for flexible performance are preferred, WPTF is willing to consider a single incentive payment for generic and flexible capacity. WPTF is more supportive of this approach if the penalty for a failure in a single hour is proportionally more for generic service than for flexible service (as the CAISO has proposed) by virtue of the fact that the offer requirement for generic is concentrated in a smaller number of hours. This will equilibrate the incentive impacts to some extent rather than having the much longer Flexible RA must offer obligation carry a much larger risk.

Regarding the CPM Replacement, WPTF believes a higher CPM replacement price is appropriate for flexible capacity, but WPTF would be willing for simplicity's sake to consider a single designation for the highest quality of service a resource is able to provide within a specified operating range (e.g., a unit receiving a CPM designation in its flexible range would receive a generic+ flexible designation and have a Flexible RA must-offer obligation). This we believe is consistent with SCE's CPM replacement proposal presented on August 25, 2014.

Regarding the Competitive Solicitation Process (CSP), WPTF encourages discussions about simplifications. One such simplification would be to establish a CPM replacement price. Then, for any CPM need, the CAISO could accept offers from other Suppliers to provide the backstop at any price below CPM. By continuing a fixed CPM price this allows competition when competition exists and allows the CAISO to simply grant a CPM designation to a single unit at the CPM price if no other supplier

offers less than CPM. With the presumption that we continue to view the CPM price as reasonable, then no cost demonstrations would be needed under such an approach; either a supplier would receive CPM or suppliers would under-bid CPM. Especially during the next several years when capacity is likely to be in excess of needs and during which it is likely that no multi-year RA requirement will be in place, it may be inefficient to apply an extensive CSI mechanism.

Regarding the RSI replacement proposal, WPTF is not particularly opposed to the CAISO's proposal whereby the risk of replacement would be directed solely to the supplier. However, WPTF believes that the CAISO should include consideration of further transparency and coordination on outage planning in the RSI stakeholder process. In particular, WPTF believes that it is of the utmost importance for market participants to understand the risk, for example, of having the CAISO move or cancel a generating unit outage and thereby cause the supplier to incur replacement costs in a subsequent month. WPTF would like the CAISO to add to the discussion such questions as: What decision criteria does the CAISO use to prioritize outages? How does the CAISO trade-off between transmission and generation outages?

Thank you for your consideration on these issues.