Stakeholder Comments Template

Submitted by	Company	Date Submitted
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Please use this template to provide your written comments on the stakeholder initiative "Review of RMR and CPM."

Submit comments to initiativecomments@caiso.com

Comments are due February 20, 2018 by 5:00pm

The Issue Paper and Straw Proposal for Phase 1 Items that was posted on January 23, 2018 and the presentation discussed during the January 30, 2018 stakeholder meeting can be found on the following webpage: http://www.caiso.com/informed/Pages/StakeholderProcesses/Review_ReliabilityMust-Run_CapacityProcurementMechanism.aspx.

Please use this template to provide your written comments on the issue paper and straw proposal items listed below and any additional comments that you wish to provide.

1. Comments on Phase 1 proposal to make RMR Condition 1 and 2 Units subject to a MOO for Energy and AS.

Comments:

Energy Division Staff (hereafter, "ED Staff" or "Staff") appreciates the CAISOs efforts to address the must offer obligation (MOO) for RMR designated resources in an expedited manner that calls for a Board approval in mid-May of this year to ensure that any new RMR contracts for 2019 are subject to a MOO. We agree with the CAISO that this issue needs to be resolved on an expedited basis.

Ideally, Staff would prefer that the MOO extend to both new and existing RMR contracts. However, Staff understands that this is not possible given that Section 2.2 of the current RMR *pro forma* reads:

> If CAISO terminates the Agreement or does not extend the term of the Agreement as to a Unit, CAISO shall not redesignate the same Unit, or designate another non-reliability must-run unit at the same Facility, as a Reliability Must-Run Unit during the one year period following termination or expiration of the Agreement as to that Unit unless (i) CAISO demonstrates that the unit is required to maintain the reliability of the CAISO Controlled Grid or any portion thereof and the need to designate the unit as a Reliability Must-Run Unit is caused by an extended outage of a generation or transmission facility not known to CAISO at the time of the termination or expiration or (ii) the unit is selected through an CAISO competitive process in which Owner participated. For purposes of the foregoing, CAISO's need for spinning reserves, nonspinning reserves, replacement reserves or regulation as defined in the CAISO Tariff shall not be grounds for redesignating the Unit or designating another unit at the Facility as a Reliability Must-Run Unit.

It is not clear from the issue paper that this portion of the current tariff is what is preventing existing RMR resources from getting a MOO applied to them. Staff requests that CAISO clarify this in the next iteration of its straw proposal.

Staff would also like the current scope of Phase I to include the allocation of flexible RA capacity. The current RMR contracts do not cover the procurement and allocation of flexible capacity. Staff would like to ensure that any future RMR designations include the flexible attributes of the resource. Since ratepayers are paying for all of the costs associated with the operation and dispatch of these resources, they should, be allocated the flexible capacity attributes on the resources. Essentially, the flexible attributes associated with the resource become sunk, if they are not allocated. Staff believes that this would be a small modification, and we request that it be made with the addition of a MOO in the current RMR tariff. To the extent that the CAISO cannot address this issue on an expedited basis for Board approval in mid-May, Staff requests that this issue be addressed in Phase 2 of this initiative.

In its issue paper and straw proposal, CAISO specifies that RMR will be exempt from the RA Availability Incentive Mechanism (RAAIM). CAISO states that: "[t]he penalties in the current RMR agreement will be used to incent performance."[1] Staff would like the CAISO to identify and describe the penalties that currently exist in the RMR agreement that would ensure performance. Additionally, Staff requests further clarification from CAISO on how scheduled and forced outage rules apply to the RMR units under the existing tariff. For example, are there specific penalties in place in the RMR *pro forma* that address forced outages?

2. Comments on potential Phase 2 items listed in issue paper and straw proposal.

Comments:

Staff appreciates the CAISO carving out Phase 2 of this initiative to address the broader issues related to CPM and RMR procurement. Given the recent increase in RMR and CPM designations, a complete review of these two mechanisms is warranted. In its Issue paper, CAISO lays out a series of topics that they plan to consider in Phase 2, divided into three categories: 1.) RMR and CPM, 2.) RMR and 3.) CPM. Staff agrees with many of the topics identified by the CAISO; however, recommends several clarifications, revisions and suggested additions to the scope and sequencing of these categories, as described below.

CAISO needs to first clarify the intended use of the CPM and RMR, before evaluating how these mechanisms need to be individually modified

Before addressing the identified topics that are specific to 2.) RMR and 3.) CPM, Staff requests that the CAISO first clearly identify the issue that it is seeking to solve with regards to the interaction of RMR and CPM in category 1. This should include a clarification of the intended purpose of each of these mechanisms to determine if both mechanisms are needed or if they should be merged. Once this is done, then parties will be able to effectively identify what additional reforms are necessary for both CPM and RMR.

In its issue paper, CAISO states that, "with the increased use of RMR and the potential for more RMR as traditional gas-fired resources are under risk of retirement pressures, the ISO believes RMR should be updated to reflect current conditions." CAISO footnotes Calpine's letter to the CAISO regarding additional units that may seek RMR in the future. Additionally, CAISO's issue paper indicates a need to expand the RMR authority to flexible needs.

The issue paper, as highlighted above, could be interpreted to imply that RMR will/may be the future mechanism used to retain resources that claim they are at risk of retiring. If this

[1] Review of RMR and CPM Issue Paper at 4

interpretation is accurate, Staff does not support this implication prior to evaluating both mechanisms side by side.

Staff supports the CAISO clarifying when RMR and CPM are to be used. This clarification should thoughtfully include the bilateral procurement process. As described above, it should also be done first prior to examining what changes are needed for each of these mechanisms. Staff recommends that the CAISO refine its issue paper to include more background on these mechanisms and the historical and future intended use.

RMR Specific Topics:

At this time Staff does not oppose looking at the weather both Condition 1 and Condition 2 options are needed, the cost allocation, streamlining the settlement process, and lowering banking costs. However, as stated above, prior to diving into the details of reforming the RMR tariff, Staff requests that the CAISO first define the purpose of CPM and RMR side by side so as to determine if both mechanism are needed or if they should be merged. Once these larger issues are resolved, this would help inform what specific areas of RMR need to also be reformed.

Do not expand the RMR tariff authority to flexible capacity need

The CAISO is potentially seeking to expand its RMR procurement authority prior to defining the purpose and use of RMR. Staff strongly opposes this approach. Expanding procurement authority on the RMR while at the same time determining if RMR should be merged with CPM does not make sense. Under CAISO's existing CPM tariff, it already has the authority to procure for flexible needs. Moving in the RMR direction signals to stakeholders that the ISO intends to use the RMR process for risk of retirement requests which would completely obviate the need for CPM Risk of Retirement (ROR) tariff authority and raises the question of the intended purpose of RMR. If RMR is to be used as a mechanism to retain existing generation that is at risk of retirement, the tariff needs to be completely reformed to reflect that purpose and need.

CPM Specific Topics

At this time Staff opposes aligning the CPM tariff to RMR rules to allow recovery for needed capital additions, but agrees that we should review cost allocation. As stated above, Staff requests that CAISO first define the purpose of CPM and RMR side by side so as to determine if both mechanism are needed or if they should be merged and whether it would be appropriate to include capital additions in a mechanism that is meant to be market based. Once these larger issues are resolved, this should help inform what specific areas of CPM need to be refined.

3. Suggested additional items for phase 2 that are not listed in issue paper and straw and why the items need to be addressed.

Comments:

As noted above, Staff believes that a clear definition of the intended use of RMR and CPM, as well as potential coordination between the two, needs to be addressed prior to revising the specific components of these mechanisms. However, depending on how this coordination is resolved, Staff has identified some issues that may need to be addressed subsequently.

Future refinements to RMR and CPM need to be closely coordinated with the existing RA bilateral procurement process, which seeks to minimize ratepayer costs

Staff request the any future straw proposal include coordination with the RA bilateral procurement process. Procurement of RMR Generation is too broad to allow for coordination with the current bilateral process to avoid front running any over procurement. The current RMR tariff continues to provide the CAISO broad discretion and authority to designate a resource at any time, however, it no longer requires an annual RMR technical evaluation. Specifically, Section 41.2 of the current tariff states.

> The CAISO will, subject to any existing power purchase contracts of a Generating Unit, have the right at any time based upon CAISO Controlled Grid technical analyses and studies to designate a Generating Unit as a Reliability Must-Run Unit.

In 2006, pursuant to the stated policy preference of the CPUC,[2] the CPUC implemented the local RA program. The local RA program was developed from a 2005 CAISO straw proposal titled "CPUC Resource Adequacy Requirements Local Study CAISO Local Capacity Study Methodology and Criteria" the CAISO stated that "it is the ISO's intent and long-term objective to phase out RMR Generation." [3]

In D.06-06-064, the CPUC identified the need to coordinate the Local and System RA requirement process with the RMR process. The timing of the RMR process and the Year-ahead RA filing deadline needed to be coordinated in order to allow RMR resources to count towards

[2] D.06-06-064, Section 3.3.7.1.
[3] file:///E:/RMR/FirstRevisedStrawProposalonLocalCapacity-StudyMethodologyandCriteria--January25_2005.pdf

system and local requirements. In this decision, the Commission adopted a preliminary local filing and pushed the annual RA filing due date back from October 2nd to the end of October. This change to the timeline was done to accommodate the annual RMR contract process (which as the time concluded on or around the same time October 2nd). The intent of the preliminary local RA filings was to alert the CPUC and the CAISO that RMR resources had been contracted for in the competitive RA procurement process so as to inform the CAISO of whether or not they needed to renew the RMR contract for the next compliance year. The CPUC acknowledged that "if compliance showings occur simultaneously with the CAISO's RMR designations two problems occur. First, there is little to no chance for LSE procurement to take the place of RMR. Second, there is no chance for CAISO's RMR procurement to be credited against the LSE's local RA obligation."[4] In this decision, the CPUC adopted a modified version of the CAISOs proposed schedule to coordinate the timing of the RMR and LSE procurement.

In its straw proposal the CAISO highlighted the interaction that the local RA program would have with the RMR process and a potential need for a back stop mechanism to be developed.

> It is possible that the flexibility in LSE procurement may result in a set of resources that meets the MW obligation, but does not fully ensure the CAISO's ability to respond to all contingencies. Therefore, the CAISO expects to develop a Local Area Reliability Contract ("LARC") where the CAISO may enter into a contract in a limited or "backstop" role to ensure the reliable operation of the CAISO Controlled Grid within the redesigned market and Resource Adequacy paradigm.[5]

As documented in its 2007 tariff language, CAISO did develop a backstop mechanism that would assist in the annual local capacity procurement process. Section 43.2.1.3 "2007 Local RCST Designations for Deficiencies" provides:

> Following the ISO's identification of any Local Resource Adequacy Requirement Deficiency, and after the time for any consultation with the ISO and the CPUC-established or Local Regulatory Authority established opportunity to make up such deficiency, the ISO may designate Eligible Capacity to provide services under the RCST consistent with the criteria set forth in Section 43.2.2. The ISO may designate Eligible Capacity to provide service under this Section 43.2.1 to the extent necessary to satisfy any remaining Local Resource Adequacy Deficiency only after: (i) RMR Units have been designated in the local area reliability study process for 2007, and (ii) the ISO has completed its evaluation of all Resource Adequacy Plans for 2007 and

[4] D.06-06-064 3.3.7.1

[5] http://www.caiso.com/docs/09003a6080/36/b0/09003a608036b0c1.pdf

> taken into account the effect of the resources identified in such plans (whether or not any of those resources are located in a 2007 Local Reliability Area).[6]

At this time the CAISO still had the RMR tariff section 30.6A.3 that stated:

> On a yearly basis, the ISO will carry out technical evaluations based upon historic patterns of the operation of the ISO Controlled Grid and the ISO's forecast requirements for maintaining the reliability of the ISO Controlled Grid in the next year. The ISO will then determine which Generating Units it requires to continue to be Reliability Must-Run Units, which Generating Units it no longer requires to be Reliability Must-Run Units and which Generating Units it requires to become the subject of a Reliability Must-Run Contract which had not previously been so contracted to the ISO.

Specific RMR Issues not Addressed:

Future changes to the RMR process should consider alternatives

Staff recommends that any future changes to the RMR process should consider an opportunity for alternatives to be evaluated prior to making or extending an RMR designation. These alternatives should include preferred resource and transmission options.

Staff emphasizes that prior implementation of the current local reliability program the CAISO used a process known as the annual LARS process to make RMR determinations.[7] It was through this process that CAISO determined how to mitigate local reliability problems. It began with a study, very similar to the current Local capacity requirement technical study, which identified specific constrained areas and the technical requirements to mitigate reliability problems in these areas. (However, the study at that time was based on a 1 in 5 load forecast and a N-1 contingency.) Following the publication of the study CAISO held a competitive solicitation to satisfy the identified requirements. In its LARS process, CAISO encouraged market participants to submit alternatives to the RMR generation (including transmission, generation, and demand-side related proposals). CAISO also considered transmission projects from PTOs. The ISO would compare the alternatives to the existing eligible resources and select and present the preferred alternatives to the ISO board for approval.[8]

The CAISO's then current RMR tariff Section 5.2.5 (later modified to 30.6A.3) read:

> On a yearly basis, the ISO will carry out technical evaluations based upon historic patterns of the operation of the ISO Controlled Grid and the ISO's forecast requirements

[6] file:///E:/RMR/Sections12-43-April6_2007ConformedTariff%20(40%20and%2043).pdf Section 43.2.1.3
[7] http://www.caiso.com/Documents/2004ReliabilityMust-RunTechnicalStudy-ISO-ControlledGrid.pdf
[8] http://www.caiso.com/Documents/2004ReliabilityMust-RunTechnicalStudy-ISO-ControlledGrid.pdf p.4-5

> for maintaining the reliability of the ISO Controlled Grid in the next year. The ISO will then determine which Generating Units it requires to continue to be Reliability Must-Run Units, which Generating Units it no longer requires to be Reliability Must-Run Units and which Generating Units it requires to become the subject of a Reliability Must-Run contract which had not previously been so contracted to the ISO.

A detailed review of the cost of service *pro forma* (Appendix G of the ISO tariff) may be necessary

Depending on the outcome of 1.) RMR and CPM, it may be necessary to completely refine the RMR cost of service *pro forma*. The RMR *pro forma* was crafted at a time when the energy markets were largely deregulated and local market power was a large concern. Therefore, Staff recommends that the cost-of-service calculation be largely reformed so as to align with any future purpose(s) that the RMR mechanism will be intended to serve. For example, if the RMR is to be used as the mechanism to retain existing generation at risk of retirement, then the *pro forma* need so be revised for that purpose. The current *pro forma* allows generators to recover their sunk cost. However, it makes little sense for ratepayers to pay sunk costs to retain a generator that is at risk of retirement. Instead, the going forward costs should be used, since this is what is required in the future to have the generator available. By allowing sunk cost recovery, the ISO is incentivizing generators to use the RMR process rather than the bilateral process.

Future refinements to RMR tariff should include establishing criteria for generators requesting RMR studies

Depending on the outcome of 1.) RMR and CPM, it may be necessary to refine the RMR tariff to include criteria that will be required of generators requesting an RMR study. As we saw in 2017, Calpine merely sent a letter to the CAISO requesting that the units be studied, claiming they were considering making them unavailable for 2018. If RMR is to be used in the future as a risk of retirement back stop mechanism, then the tariff needs to be reformed to reflect some burden of proof that a generator is uneconomic and has made plans to retire.

Specific CPM Cost Issues not Addressed:

With regards to CPM issues not addressed in the issue paper, Staff would like to include a review of the current tariff provision that allows a generator the option to be compensated at a rate higher than the CPM soft offer cap if the resource owner makes the specific cost recovery filing with FERC pursuant to the CAISO's RMR *pro forma*.

The current tariff language states:

> CPM Capacity shall not be compensated by the CAISO at a rate higher than the CPM Soft Offer Cap unless a Resource Owner of Eligible Capacity makes the required resource-specific cost filing with FERC pursuant to Section 43A.4.1.1.1.[9]

Under Section 43A.4.1.1.1 of CAISO tariff a generator may justify a price higher than the CPM offer cap, through a filing to FERC. This filing is required to be made in accordance with the annual fixed revenue requirement methodology identified in the RMR *pro forma* agreement (CAISO tariff Appendix G)). This section of the tariff specifically states:

> A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the methodology for determining the Annual Fixed Revenue Requirement of an RMR unit as set forth in Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff.[10]

The RMR *pro forma* specifically allows a generator to calculate its cost-of-service compensation, whereas the soft offer cap price is based on the going forward cost (plus a 20% adder) of a combined cycle generator. Additionally, the cost-of service calculation does not allow for market revenues to be netted out of the fixed revenue requirement. Therefore, under this provision of the tariff a resource would be compensated for all its fixed costs while also being able to earn revenues in the market that it would keep. This appears to be a complete oversight by all parties during the design of the CPM tariff.

Staff became aware of this issue towards the end of the CAISO's recent CPM Risk-of-Retirement stakeholder initiative. The final tariff, filed with FERC, based the compensation price on the *annual fixed revenue requirement calculation* using the *RMR pro forma agreement.* Staff recently protested this tariff filing at FERC stating:

> CAISO's proposed tariff amendment is materially flawed because it allows for cost-of-service compensation, potentially including recovery of sunk costs, without market revenue return. CAISO's cost proposal would guarantee both full cost recovery including depreciation and return on investment, with an additional, and duplicative, opportunity to further recover revenues from the market. This treatment is inconsistent

[9] CAISO Tariff 43A.4.1.1 - https://www.caiso.com/Documents/Section43A_CapacityProcurementMechanism_asof_Sep25_2016.pdf

[10] CAISO Tariff 43A.4.1.1.1

> with the reliability must-run ("RMR") agreements in CAISO's tariff and RMR agreements in other jurisdictions.[11]

Staff recommends that the current CPM tariff be modified to exclude a compensation option above the CPM offer cap. If one is to be provided, it needs to be based on a fair cost-of-service calculation that provides for market revenues to be netted out of costs.

The current CPM settlement allows for a reevaluation of CPM if certain triggers are met. On May 26, 2015, the CAISO filed its tariff amendments and CPM settlement offer with FERC[12]. The settlement addressed issues that were not reflected in the tariff revisions but were part of the overall settlement. Included in these issues was the use of CPM as LSEs primary procurement mechanism. The settlement resolved this issue by establishing two triggers that would warrant a stakeholder initiative to evaluate reliance on CPM. Specifically, the offer of Settlement states:

> *1. The CPM is not intended to be a source of primary capacity procurement by load serving entities. The Offer of Settlement defines two separate triggers that indicate whether load serving entities might be using the CPM for primary capacity procurements: (1) within a rolling 24-month period, the same load serving entity twice relies on the CPM to meet any resource adequacy deficiency; or <u>(2) any load serving entity meets more than 50 percent of its annual or monthly resource adequacy obligation for a year or month, respectively, with CPM capacity procured by the CAISO on the load serving entity's behalf. The first time either trigger is met, per the Offer of Settlement, the CAISO would "open a stakeholder initiative to explore whether load serving entities have relied on the CPM, to an unacceptable extent, as a primary means of capacity procurement</u>." The stakeholder process may consider prospectively applicable remedial measures design to avoid load serving entity reliance on the CPM.*

Given the recent 2018 annual CPM designations in the SDG&E region, Staff believes trigger 2 has been met, and therefore it is appropriate to explore all aspects of the CPM tariff including its intended use and its compensation price. Specifically, Staff requests that this include a diligent review and needed revisions of the cost based compensation calculation in the RMR *pro forma*.

<u>Other items not identified that should be included:</u>

Clarify the framework for retiring a resources in CAISO tariff

[11] CPUC Protest to FERC filing ER18-641-000 at 2

[12] Tariff Amendment and Offer Settlement Regarding Capacity Procurement Mechanism Revisions and Request for Waiver of Notice Requirements- filed May 26, 2015

The current scope makes no mention of a framework for retiring a resource. Staff believes that this should be included in the establishment of any future mechanism that would be used for designating units at risk of retirement.

4. Other Comments

Please provide any additional comments not associated with the items listed above.

Comments:

No further comments at this time.