Stakeholder Comments Template

Submitted by	Company	Date Submitted
Jaime Rose Gannon	CPUC	8/10/2018

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 August 7, 2018 by 5:00pm

The June 26, 2018 Straw Proposal and the presentation discussed during the July 11, 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 items listed below and any additional comments that you wish to provide.

Energy Division Staff (hereafter, "ED Staff" or "Staff") thanks the CAISO for its continued efforts in working to reform the current Capacity Procurement Mechanism (CPM) and Reliability Must Run (RMR) mechanisms. Staff appreciates several additional elements that CAISO has included/added to the revised straw proposal released on June 26, 2018, including the following:

- increasing transparency,
- applying a must offer obligation (MOO) and resource adequacy availability incentive mechanism (RAAIM) to CPM and RMR designations,
- allocation of flexible capacity benefits for RMR resources, and
- changing the CPM compensation for resources requesting payment above the soft offer cap.

Staff does not fully agree with all aspects of the CAISO's proposals on these topics, however, Staff believes CAISO is moving in the right direction by including these changes in its revised straw proposal.

In addition, Staff is very concerned with other aspects of the proposal and requests that CAISO review and revise its approach in these areas. These aspects include the following:

- RMR and CPM compensation,
- expanding RMR authority to flexible and system needs,
- expanding RMR authority to years two and three, and
- establishing a timeline for requesting and approving RMR designations.

The critical concern with each one of these aspects is the 'front running' issue identified by FERC in its order rejecting the CPM ROR tariff.[1]

Comments on June 26, 2018 straw proposal.

Increased Transparency

Staff appreciates that CAISO is providing more transparency regarding resource owner requests for retirements. In July, CAISO posted a list of resources seeking to retire and/or asking to be studied for reliability. This level of transparency allows all stakeholders to see which generators are requesting to be studied and which generators are actually requesting to retire. Staff requests that CAISO alert market participants when it receives additional requests.

Make RMR resources Subject to Must Offer Obligation (MOO) and Resource Adequacy Availability Incentive Mechanism (RAAIM)

Staff supports the CAISO proposal to add a MOO to RMR resources in addition to subjecting the resources to RAAIM. Applying the same MOO and RAAIM to RMR resources that is applied to RA resources will eliminate the possibility of providing an incentive for generators to use the RMR process over the bilateral procurement process. Staff also supports the RMR pro forma performance penalty provisions in addition to RAAIM. Having both will discourage generators from using the RMR mechanism over the bilateral process, which is one of the key goals.

Allocation of Flexible Benefits on CPM and RMR Designations

Staff supports the CAISO's proposal to allocate flexible benefits of RMR designations to LSEs. In addition, Staff request that the CAISO clarify that the system benefits will also be allocated.

Changing the Cost Compensation for CPM Designations Requesting Payment Above the Soft Offer Cap

[1] FERC Docket E-18-641-000 Order rejecting CPM ROR tariff revision Paragraph 43

CAISO proposes to change the cost compensation for CPM bids above the soft offer cap. The current tariff allows generators to file for compensation above the soft offer cap using the current RMR pro forma which allows for total cost recovery (AFRR) and retention of market revenues.[2]

In its straw proposal, CAISO proposes to change the methodology to be based only on going forward fixed cost (GFFC) plus a 20% adder and retention of market revenues earned. Generators would have to file with FERC for cost recovery.

Staff appreciates the CAISO attempting to address this costs compensation error. Eliminating the ability for a generating to receive total cost compensation (sunk and GFFC) and retention of market revenues is a step in the right direction. However, staff still remains concerned that the compensation is too high. Staff recommends that the 20% adder be removed from the cost compensation calculation, given that generators retain market revenues and this provides an opportunity for sunk cost recovery, to the extent that the resource is not fully depreciated.

Cost Compensation for RMR Designations

Staff does not support CAISO's proposal to retain the current cost compensation for RMR resources. The cost compensation is a key flaw in the mechanism that is incentivizing generators to choose the RMR process over a bilateral RA process. If the cost compensation continues to be full cost of service with no parameters around what can include (such as asset life limits) then resources will continue to use this mechanism over the bilateral process. Setting the right cost compensation is critical to addressing and resolving the issues that gave rise to the RMR designations that occurred last year.

If CAISO wishes to utilize RMR as a vehicle to procure resources needed for reliability, then it should change the cost compensation from full cost recovery (AFRR) to going forward fixed costs (GFFC) plus provisions for any needed capital additions, to the extent not already including in GFFC. Staff believes this change would disincentivize generators from using the RMR mechanism to get higher compensation then they could through the bilateral procurement process and/or through the CPM process.

Expanding RMR Authority to Flexible and System Capacity

Staff does not support the CAISO expanding its RMR tariff authority to flexible and system capacity. Expanding the RMR tariff authority will again provide generators with the opportunity to utilize the RMR process rather than the bilateral process (and the CPM process) to secure

[2] CAISO Tariff, § 43A.4.1.1.1 "For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff."

revenues. This is because resources seeking to retirement could potentially be paid higher revenues through an RMR contract then they could through a bilateral contract. Expanding RMR will lead to further front running of the competitive bilateral process.

Expanding RMR Authority to Year Two and Three

Staff strongly opposes expanding RMR to year two and year three. The CPUC's current RA proceeding, R.17-09-052, is developing a local multi-year framework that will likely help to provide local generators with long term contacts to provide revenue certainty into the future. Staff has serious concerns that if RMR or CPM authority is extended to years two and three that this will expand the current front running issue that is occurring in the one-year framework. The CAISO's current RMR tariff already allows for a resource seeking retirement to be designated (as we saw with the Calpine units). What CAISO is proposing here will result in front running of the future multi-year bilateral construct that is currently be developed at the CPUC. Staff urges the CAISO to remove any backstop authority for multi-year products at this time. Not doing so will only result in the CAISO further front running the competitive bilateral RA market.

Elements that should be included the next Straw Proposal-

1.) ***<u>Combine its current RMR mechanism with its CPM mechanism so as to simplify the CAISOs backstop role to one mechanism.</u>***

    The current Section 43A of the CAISO's CPM tariff provides the CAISO the authority to procure resources under the following situation: 1) Insufficient Local Capacity Area Resources in an annual or monthly RA plan, 2) Collective deficiency in local capacity area resources, 3) Insufficient RA resources in an LSE's annual or monthly RA plan, 4) A CPM Significant Event, 5) A reliability or operation need for Exceptional Dispatch CPM, 6) Capacity at risk of retirement within the current RA compliance year that will be need for reliability by the end of the calendar year following the current RA compliance year, and 7) A cumulative deficiency in the total flexible RA capacity included in the annual or monthly flexible RA capacity plans, or in a flexible capacity category in the monthly flexible RA capacity plans.

    Staff believes that the authority listed above provides the CAISO the same authority to backstop for RMR resources. The main difference between the two mechanisms is that CPM is voluntary and RMR is mandatory with regards to accepting a payment.

2.) ***<u>Make CPM mandatory for resources that do not bid into the Competitive Solicitation Process (CSP) but are needed for reliability.</u>*** Staff proposes that the CAISO change its current CPM tariff to be a mandatory designation for resources that do not participate in the CSP but are needed for reliability. Currently, if a resource does not bid into to the CSP, a bid at the soft offer cap will automatically be submitted for them. The resource owner can decline this designation/payment. However, if this designation is an exceptional dispatch the resource still has to respond to the dispatch. From an operational standpoint, Staff interprets this to be mandatory. From a compensation standpoint, it appears to be voluntary. Staff proposes that all types of CPM, including exceptional dispatch, be made mandatory from a compensation standpoint. This could be achieved by allowing resources to be paid above the soft offer cap if their GFFC exceed the soft offer cap. Generators would be required to submit these costs to FERC for approval the same way they do today. However, they would be limited to only going forward fixed costs and provisions for needed and justified capital additions.

3.) Identify a clear timeline that would allow resources to be approved and designated as RMR after the bilateral RA process and the CPM process have concluded.

CAISO continues to assert that RMR should be the last resort for procurement because it is a mandatory designation. In its current straw proposal CAISO plans to expand RMR authority to include CPM ROR. Therefore, RMR will be the sole vehicle to retain resources that are needed for reliability and at risk of retiring. RMR currently is the sole vehicle to retain resources that are seeking to retire but are needed for reliability.

Since RMR should be the last resort, then it is critical that the RMR designation be made after the annual bilateral process concludes. This is not how the current RMR process is implemented today. RMR designations currently front run the bilateral process and will continue to unless the current tariff is changed to not allow RMR designations to be made at any time. As discussed above, one way to ensure that RMR designations do not front run the bilateral process is to merge CPM and RMR authority into the current CPM process, which is conducted after the bilateral processes has concluded. Another way of doing this would be to establish a timeline for RMR approvals and designations to be made following the conclusion of CAISOs annual CPM process. If a resource refuses a CPM designation the CAISO could then designate the resource for the coming year and allow it to recover is GFFC through a FERC approved filing.

In addition, the current straw proposal does not provide a timeline or a window that would follow the conclusion of the bilateral procurement process and the CPM process; therefore, the current straw proposal fails at mitigating FERC stated concerns of front running.

Staff request that if the CAISO plans to continue to use RMR both as a vehicle to procure needed resources that are planning to retire or at risk of retiring, it needs to establish an approval and designation process that occurs only after the bilateral procurement process has concluded.

4.) Establish a timeline for resources seeking to retire to submit request so that they can be assessed for need and potential CPM or RMR designations

Staff understands that generators are requesting information on whether they are needed for the coming year so that they can make retirement decisions. Therefore, Staff proposes that CAISO require generators to submit retirement requests by a certain date each year. These requests would be incorporated into the annual local and flex studies so they could be studied within a stakeholder process. In order for this to work, retirement requests for the coming compliance year would need to be made prior to February 15th (or the latest possible date for the CAISO to incorporate into annual Local and Flexible Capacity Requirement Studies). Providing CAISO and market participants with more time to study planned retirements would in turn provide generators with more certainty regarding retirement decisions. If the retirement notice is not submitted in a timely fashion, then the need for the resource would not be assessed in the planning process.