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 April 10, 2018 by 5:00pm

The Draft Final Proposal for Phase 1 Items and Items under Consideration for Phase 2 that was posted on March 13, 2018 and the presentation discussed during the March 20, 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") appreciates the CAISO adding two additional items to its "Review of CPM and RMR" initiative. These include the allocation of flexible capacity to the RMR construct, in addition to an evaluation of whether LSEs are currently relying on CPM to meet RA requirements. Staff continues to support the addition of cost compensation to this initiative and will address this in Section 3 below.

1. <u>Comments on phase 1 draft final proposal to make RMR units subject to a must-offer obligation.</u>

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments:

Staff supports adding a must-offer-obligation (MOO) to the current RMR mechanism as a stop-gap measure, but recommends that the entire RMR/CPM structure be re-evaluated, as discussed further below. The current RMR mechanism was not designed for risk of retirement, and merely applying a must-offer-obligation to the current mechanism is not sufficient if it is to be used to retain resources based on a claim that the owner is considering or planning retirement of the resource.

During the stakeholder meeting on March 20th, staff argued that the allocation of flexible attributes should be included in Phase 1 of the initiative and continues to support this addition to the draft final proposal. This small change should be included to ensure allocation of the flexible capacity benefits that ratepayers would presumably pay for under the RMR contract (particularly in a risk of retirement framework).

2. <u>Comments on phase 1 draft final proposal for ISO to provide notification to stakeholders that a resource is planning to retire.</u>

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments:

Staff supports the CAISO's efforts to provide stakeholder with additional transparency in an effort to minimize additional out of market procurement through the RMR mechanism. The CPUC's current subpoena requests that it be notified by the CAISO of any requests for RMR or CPM ROR within 10 business days of receiving a request from a generator. However, Staff agrees that this information should also be shared with stakeholders. This information may be used to guide bilateral procurement and may minimize future out of market procurement.

3. <u>Comments on potential phase 2 items.</u>

Section 8 of the March 13, 2018 paper discusses the items that may be candidates for phase 2 of this initiative. It includes items suggested by both the ISO and stakeholders. The ISO requests that stakeholders comment on the priorities for these potential phase 2 items.

Comments:

The CAISO has listed 13 items that it plans on addressing in its Phase 2 initiative. However, these items do not include critical issues and attendant changes that staff believes are necessary to reform the current RMR and CPM mechanisms. Both CPM and RMR cost compensation are based on the calculations detailed in the detailed in the RMR pro forma Contract[1]. The cost compensation calculation currently allows a generator to recover its sunk and going forward costs while earning a 12.25% rate of return. Staff strongly recommends that the CAISO change the pro forma contract and cost compensation calculation. If the RMR mechanism's intended use has changed from being a market power mitigation tool to being a tool used to retain resources at risk of retirement, then it follows that the compensation calculation should also change.

Staff also notes that FERC's recent order rejecting revisions to the CPM ROR tariff, states that:

> [W]e strongly encourage CAISO and stakeholders to make progress in the ongoing stakeholder process and to adopt a holistic, rather than piecemeal, approach. We believe that this should include: (1) revisiting the issue of the adequacy of CPM and RMR compensation; (2) evaluating whether both risk of retirement CPM and RMR need to be retained as separate backstop mechanisms; (3) examining the timeline and eligibility requirements for issuing risk of retirement CPM designations and how those factors may impact bilateral resource adequacy procurement; and (4) evaluating measures that would trigger the review of its backstop procurement if it appears to be overused.[2]

Staff requests that the CAISO update Phase 2 to include the additional items identified by FERC in this order.

During the last stakeholder meeting, CAISO encouraged stakeholder to prioritize the various Phase 2 items. Staff believes the most important item to address is the CPM and RMR cost compensation. Staff also recommends that CAISO prioritize the following: CPM cost allocation, clearly define the intended use of RMR, and consider merging the CPM ROR with the RMR mechanism so as to develop a more formal risk of retirement process that is coordinated with the bilateral market.

4. Other Comments

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

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[1] CAISO Tariff Appendix G-
http://www.caiso.com/Documents/AppendixG_ProFormaReliabilityMustRunContract_asof_Apr1_2017.pdf

[2] FERC Docket E-18-641-000 Order rejecting CPM ROR tariff revision Paragraph 48

Comments:

The CPUC is currently considering a multi-year RA construct that may strengthen the incentive for generators to utilize the bilateral procurement mechanism rather than backstop mechanisms. However, it is critical that CAISO create no further incentives for generators to attempt to receive higher revenues through CAISO's backstop processes, without requiring a higher bar for the generators to demonstrate that the resource is indeed uneconomic and clearly intends to retire.