Stakeholder Comments Template

Submitted by	Company	Date Submitted
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The Office of Ratepayer Advocates (ORA) provides the following responses to the California Independent System Operator's (CAISO's) questions in this template regarding the Review of Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM) June 26, 2018 Straw Proposal and July 11, 2018 stakeholder meeting.

1. **Comments on June 26, 2018 straw proposal.**

RMR and CPM

a. Provide notification to stakeholders when a resource informs ISO it is retiring

Comments:

ORA supports CAISO's creation of the Announced Retirement and Mothball List.[1] The list will allow market and regulatory stakeholders to plan for the changing resource adequacy (RA) landscape of resources and to devise strategies to adjust for or even preclude CAISO backstop.

At the July 11th meeting, Pacific Gas and Electric Company (PG&E) expressed concern that CAISO does not plan to send out notice to stakeholders when the list is updated or revised. ORA shares this concern, since most stakeholders may not make a habit of checking the list regularly and could be unaware of new retirements. ORA recommends that CAISO publish a market notice immediately following any modification to the list to ensure that stakeholders

[1] Available at: http://www.caiso.com/Documents/AnnouncedRetirementAndMothballList.xlsx

promptly learn of the changes and can plan accordingly, as intended by the creation of the list in the first place.

b. Clarify when RMR procurement is used versus CPM procurement

Comments: No Comment

c. Explore whether Risk of Retirement CPM and RMR procurement can be merged into one procurement mechanism

Comments: No Comment

d. Evaluate compensation paid for RMR and CPM services

Comments: No Comment

RMR

e. Develop interim pro forma RMR agreement, i.e., change termination and re-designation provisions

Comments: No Comment

f. Update certain terms of pro forma RMR agreement

Comments: No Comment

g. Update allowed rate of return on capital for RMR compensation

Comments: No Comment

h. Make RMR resources subject to a must offer obligation

Comments: No Comment

i. Make RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Comments: No Comment

j. Consider whether Condition 1 and 2 options are needed for RMR

Comments: No Comment

k. Ensure RMR designation authority includes system and flexible needs

Comments:

At the July 11th stakeholder meeting, CAISO clarified that it would only designate units as RMR for system or flexible needs if the resource owner provides a letter stating its intent to retire a resource and CAISO determines a need for the resource. If CAISO moves forward with this aspect of the proposal, CAISO should clarify this intent in its proposal, because there was confusion that CAISO might designate units as RMR simply because the resource owner rejects a CPM designation.

However, it is not clear that CAISO's proposal to extend its RMR designation authority to system and flexible needs is necessary or beneficial. Load-serving Entities (LSEs) have exceeded their system and flexible RA requirements in 2017[2] and can own additional capacity that they do not show for RA purposes. The California Public Utilities Commission (CPUC) Integrated Resource Planning (IRP) process will ensure the procurement of new resources to meet capacity needs over the longer term planning horizon; the current IRP cycle plans out to 2030.[3]

It seems very unlikely that CAISO would ever reach a point where it would need to RMR a unit for system or flexibility reasons. LSEs are required to show procurement of 90% their system RA obligation for the five summer months and 90% of their flexible RA obligation for all twelve months.[4] They are also required to show 100% of their monthly system and flexible RA on a month-ahead basis. LSEs do not need to procure system or flexible RA resources in specific local areas so there is a larger pool of resources to procure to meet RA requirements. If

[2] The 2017 Resource Adequacy Report, August 2018, p. 15 and p.20.

[3] D.18-02-018, pp. 2-3.

[4] The 2017 Resource Adequacy Report, August 2018, p. 5.

RA showings fall short of system or flexible capacity requirements, CAISO has the ability to designate resources to provide capacity through CPM. If a resource rejects an initial CPM designation, CAISO can require resources to respond to Exceptional Dispatch CPM which is mandatory.[5]

CAISO has not addressed whether it would seek an annual RMR contract for system or flexible needs depending on the duration of any actual need. For example, if a resource would only be needed for one month of the year for system or flexible capacity, would CAISO seek a one-year contract for the resource or would it consider CPM Exceptional Dispatches instead?

ORA is also concerned with the interaction between the proposal to apply RMR to system and flexible capacity and the proposal to designate a resource as RMR that is needed for years two or three.[6] These proposals could potentially lock-in resources to RMR agreements if CAISO sees a need in years two or three, even though load forecasts can change and new solutions can come online in a short period of time to obviate the need. Additionally, CAISO has reported a delay in its Flexible Resource Adequacy Criteria and Must Offer Obligations Phase 2 (FRACMOO2) stakeholder initiative, which would lead to changes in flexible RA requirements. Therefore, CAISO's proposal could lock-in resources to RMR agreements that may not actually meet flexible capacity needs in the future. CAISO should address these concerns before moving forward with this proposal.

l. Allocate flexible RA credits from RMR designations

Comments:

ORA supports allocation of flexible RA value for RMR resources, because it would ensure that ratepayers get the full value of the cost for RMR resources. Counting the flexible RA value of RMR resources also decreases the risk that ratepayers will pay for additional unneeded flexible capacity.

m. Streamline and automate RMR settlement process

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[5] CAISO stakeholder meeting, July 11, 2018.

[6] CAISO Straw Proposal, June 26, 2018, p. 4.

Comments: No Comment

n. Lower banking costs associated with RMR invoicing

Comments: No Comment

CPM

o. Evaluate year-ahead CPM local collective deficiency procurement cost allocation to address load migration

Comments:

ORA supports further investigation and discussion of year-ahead CPM cost allocation. The costs of the Encina and Moss Landing CPM designations for 2018 were charged to LSEs based on prior-year load forecasts rather than actual loads, as the Straw Proposal describes.[7] This is a significant problem due to load migration observed for 2018 and expected in near-future years.[8]

CAISO claims that the CPUC's Decision (D.) 18-06-030 mitigates much of this concern, since it requires Community Choice Aggregators (CCAs) to participate in the year-ahead forecasting process, which will provide more predictable patterns of load migration.[9] That Decision, however, cannot account for unpredictable changes to load migration throughout the year, such as a delay in a CCA's start date.[10] CAISO's effort to create a holistic approach to altering the CPM and RMR tariffs should include new provisions to true up cost and credit allocations.

p. Evaluate if load serving entities are using CPM for their primary capacity procurement

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[7] Straw Proposal, pp. 29-30.

[8] Numerous stakeholders raised this concern following the Encina and Moss Landing CPM designations. *See* Straw Proposal, p. 41 (PG&E), pp. 41-42 (SCE), pp. 45-46 (CLECA), p. 52 (ORA).

[9] D.18-06-030, Section 3.4.

[10] Just such a delay occurred recent at Desert Community Energy which in July 2018 delayed its August 2018 start date due to market conditions. See: https://desertcommunityenergy.org/wp-content/uploads/2018/08/Schedule_Update.pdf

Comments: No Comment

2. Other Comments

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

Comments:

RMR Risk of Retirement

The Straw Proposal seeks to remove CPM tariff language for capacity at risk of retirement (ROR) but needed for reliability and to revise the RMR tariff to add the authority to designate a resource based on need in future years.[11] Specifically, under the current CPM tariff, if a resource is at risk of retirement CAISO may grant the resource a CPM designation for the following year, when its capacity is not needed, to allow it to offer its RA capacity in the year beyond the following year when CAISO forecasts it will be needed for reliability.[12] The Straw Proposal seeks to add "that same authority to ISO's RMR tariff to allow the ISO to designate a resource as RMR that is needed for years two or three with an appropriate length bridge."[13] ORA notes that the Straw Proposal explores a bridge length for a resource to show up in "year three," two full years under RMR before it is needed. The current CPM tariff does not include such a provision.[14]

ORA opposes this change for the following reasons. In the current RA Rulemaking (R.) 17-09-020, the CPUC intends to implement a multi-year RA contracting requirement that would provide more resource owners with multi-year contracts.[15] The requirement would be for at least three years, which would require forecasts three years forward. In that proceeding, CAISO has proposed to identify essential reliability resources needed to meet reliability requirements which

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[11] CAISO Straw Proposal, June 26, 2018, p. 4.

[12] CAISO Tariff, Section 43A.2.6.

[13] Straw Proposal, p. 4.

[14] CAISO Tariff, Section 43A.2.6 only applies this authority for a resource "at risk of retirement during the current RA Compliance Year and that will be needed for reliability by the end of the calendar year following the current RA Compliance Year."

[15] D.18-06-030, p. 29.

will inform multi-year procurement.[16] These upcoming changes to procuring RA will provide resources needed for reliability the opportunity for multi-year contracts. Extending RMR to multiple years could motivate some resource owners to seek lucrative multi-year RMR contracts rather than offer competitive multi-year RA bids in LSE solicitations.

Similar to CAISO's 2017 proposal to modify the design of the ROR CPM, CAISO's proposal to extend RMR would allow resource owners to learn whether or not their resources are needed prior to seeking an RA contract in competitive LSE solicitations. The RMR process is not constrained by any window of opportunity for resources to be considered for or granted an RMR agreement.[17] If CAISO notifies a generator that it is needed for reliability before or during LSE procurement of RA contracts, then the generator has market knowledge that it will receive an RMR rate and could provide bids similar to what it would receive through the RMR contract. To minimize ratepayer costs, ORA supports procurement of RA contracts through competitive solicitations issued by LSEs rather than costly backstop procurement through CPM and RMR designations. In regards to CAISO's proposed ROR CPM revisions, FERC found that "CAISO has not adequately demonstrated that its proposal addresses the front-running concerns raised by protestors and that the proposal will avoid potentially deleterious effects on the competitiveness of capacity procurement under CPUC's resource adequacy program."[18] Those concerns apply similarly to CAISO's proposal to extend RMR.

Additionally, the Straw Proposal's suggested three-year RMR designation is a major departure from the current ROR CPM tariff, which only considers a two-year designation and represents significant costs to ratepayers. Under this proposal, CAISO could grant a resource an RMR contract if CAISO forecasts that it is not needed in the next year or following year, but needed three years away. Under this proposal, a resource may notify CAISO that it intends to retire on August 2018. CAISO would perform a study and may find that the resource's capacity is not needed until January 2021. The CAISO could then grant the resource an RMR contract for the full years of 2019 and 2020 on the assumption that the resource will be procured in 2021 if the need is realized. Ratepayers would pay the costs for the two years during which the capacity

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[16] R.17-09-020, CAISO Testimony, Chapter 3, pp. 6-7.

[17] CAISO Tariff, Section 41.2.

[18] 163 FERC ¶ 61,023. Docket ER18-641-000, Order Rejecting Tariff Revisions, April 12, 2018, p. 16.

is not needed. However, a resource solution could arise in a short time frame that would remove the need for the resource in 2021. For example, PG&E's proposed transmission solutions in the South Bay/Moss Landing sub-area show how quickly some solutions can be deployed to reduce local needs. PG&E's proposed projects were approved by the CAISO Board in March 2018 and will be in place beginning in 2019.[19] CAISO's proposal to extend RMR could greatly increase costs to ratepayers.

For these reasons, the CAISO should remove its proposal to extend RMR.

[19] 2017-2018 Transmission Plan, March 22, 2018, pp. 259-263.