Review of RMR and CPM Comments – Draft Final Proposal for Phase 1 and Items under Consideration for Phase 2

Submitted by	Company	Date Submitted
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PG&E appreciates the opportunity to provide comments in response to the Draft Final Proposal for Phase 1 Items and proposed scope of Phase 2 items issued March 13, 2018, and the discussion at the stakeholder meeting on March 20, 2018.

PG&E supports (with some conditions described further below) the CAISO's two Phase 1 proposals: inclusion of a Must Offer Obligation (MOO) for Reliability Must Run (RMR) units, and the proposed business process change to allow notification of market participants upon CAISO receipt of new risk-of-retirement letters from resource owners (as well as disclosure of letters CAISO may already have received but not disclosed thus far in 2018).

Despite our support for these Phase 1 measures, PG&E remains concerned that the scope of Phase 2 falls well short of the challenge at hand and that ***inefficient, costly backstop procurement in the coming years remains a likely outcome***. In previous comments, PG&E proposed three Phase 2 scope additions that would help to more completely address the scale of the problem in California's local capacity markets. All three were rejected by CAISO for reasons that appear to display a lack of willingness to engage with the seriousness of the issues:

- **"Going Forward" Cost as Basis for both Risk of Retirement CPM and RMR:** CAISO asserts that the compensation mechanisms for backstop procurement in the tariff were found just and reasonable at FERC at their time of approval,[1] and therefore "the ISO is not planning to significantly change in this initiative the overall compensation structure." (Draft Final Proposal, p. 14).
- **Inclusion in scope of changes to the TPP and LCR study process to identify needs earlier**: CAISO asserts that "the issues are already adequately addressed in the ISO tariff and current processes." (Draft Final Proposal, p. 15)

[1] PG&E notes that the tariff compensation mechanism for the Risk of Retirement CPM is currently the subject of a dispute before FERC.

- **Removing the CAISO's discretion whether or not to CPM for a collective deficiency:** "([CAISO is] not planning to change the tariff language from 'may' to 'shall') as this language was approved by FERC". (Draft Final Proposal, p. 15)

CAISO's logic in rejecting all three of PG&E's proposals appears circular. PG&E reminds CAISO that the purpose of this initiative is precisely to review and revisit those portions of the tariff that are no longer in accord with policy and that are producing (and will likely continue to produce) outcomes that are unjust and unreasonable, in light of changed circumstances.[2]

PG&E provides the following additional comments on features of the Draft Final Proposal.

The CAISO's proposal for Phase 1 has not described how the MOO will reflect the use-limited nature of RMR resources within the market.

The CAISO's draft final proposal for Phase 1 of this initiative is intended to immediately address and implement a must-offer obligation (MOO) for RMR units, comparable to RA and CPM resources. The Scheduling Coordinator (SC) will be required to submit market based bids for energy and Ancillary Services (AS) during all hours that the unit is physically available. The intent of implementing a MOO for RMR units is to ensure that the resource isn't withheld from participating in the CAISO markets during all hours, in the interests of the consumers who are bearing the full cost of the RMR capacity receiving value from the resource.

Market participation is important to extracting the value of the contract cost. However, ensuring that the unit is available for RMR Dispatches is also important to reliability. The CAISO should provide additional details to describe how it will implement the use plan that identifies and preserves the specific hours for RMR dispatch operation while requiring market participation during other periods. The CAISO hasn't accurately estimated RMR dispatch hours for the units which are designated for specific reliability reasons today, and ensuring market participation could result in units being unavailable for RMR dispatches. The CAISO should describe in more detail how it will optimize within the market how it instructs an RMR unit not to run due to a use limitation. Additionally, CAISO needs to be able to accurately estimate both projected market and reliability dispatches to determine whether any capital improvements are justified.

The CAISO's proposal for Phase 1 should use the non-performance penalties to incent performance for both the RMR Dispatches and Market Transactions.

[2] PG&E notes that FERC, in its orders of December 29, 2017 setting the two Calpine 2018 RMR applications for settlement, stated, "We understand that some of these issues may be addressed in an upcoming stakeholder process that CAISO states it intends to initiate in 2018, and we encourage interested stakeholders to participate in that process."

The CAISO's draft final proposal recommends that the current RMR penalties in the RMR agreement be used to incent performance. The RMR unit is exempt from Resource Adequacy Availability Incentive Mechanism (RAAIM) performance penalties and is subject to Non-Performance penalties pursuant to the tariff. Non-Performance Penalties include both the hourly availability charge associated with the fixed revenue requirement and the hourly capital item charge associated with any capital expenditures. Non-performance penalties are only applicable when the resource isn't available for an RMR dispatch and will not apply during any other hours.

The CAISO has proposed to impose a 25 percent reduction of the daily fixed revenue requirement if the unit owner, after consultation with the CAISO, has not fulfilled its obligation to submit bids during all hours. The CAISO should impose the Non-performance penalty, which includes the fixed revenue requirement and any capital expenditures, for a unit's failure to meet the must offer obligation

The CAISO's proposal for Phase 1 should not include major maintenance adders in CAISO generated cost-based bids for RMR Dispatches.

The CAISO's draft final proposal indicates that in instances when the CAISO generates and inserts cost-based bids that major maintenance adders will be included within the start-up costs. RMR resources have separate tariff provisions pursuant to Schedule L-1 to propose capital items for the next contract year and a five-year forecast of anticipated capital expenditures. These capital costs are proposed and recovered separately from its market operation. Including major maintenance adders in the cost based bids could prevent the unit from being dispatched more frequently within the market while it still obtains recovery of capital costs that have already been approved separately.

The CAISO's proposal should account for all the resource adequacy characteristics associated with the RMR capacity.

By rendering a must-offer obligation for RMR capacity, the CAISO should make sure that the value of the services being procured are recognized. RMR contracts are providing for a specific reliability need, but also, with the addition of the must-offer obligation, providing what are essentially RA services. This recognition needs to be effectuated so that there is not the over-procurement of unneeded RA capacity. RMR capacity with a must-offer obligation is providing services exactly akin to capacity counting for system, local and flexible RA, and should be accorded that credit. Consequently, the CAISO should facilitate the counting of these RA attributes by allowing the capacity to be allocated directly to LSEs or the recognition that the LSEs responsible for paying the RMR costs should be getting the RA credit from that capacity, either through the reduction of the requirements for those LSEs or for the direct allocation of that capacity through setting LRA requirements. Failure to do so would lead to un-just and unreasonable required procurement on the part of the CAISO.

The CAISO should also address the load migration issues associated with annual CPM calls. Under the current tariff, the CAISO allocates the costs of annual CPM to LSEs based on the forecast of load at the time the call is made. However, it is possible for load to migrate between LSEs between the time the CAISO makes the CPM designation, before the beginning of the year, and the time the CAISO actually bills LSEs for the CPM. Monthly CPM costs are allocated on an ex post basis, and the CAISO could easily change its allocation to be based on actual load. Not to acknowledge the load shift between LSEs leads to unjust and unreasonable charges for services beyond those incurred by load.

PG&E suggests the CAISO make the following tariff language change:

43A.8.3 Collective Deficiency in Local Capacity Area Resources

If the CAISO makes designations under Section 43A.2.2 the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs serving Load in the TAC Area(s) in which the deficient Local Capacity Area was located. The ~~allocation will be based on the Scheduling Coordinators' proportionate share of Load in such TAC Area(s) as determined in accordance with Section 40.3.2, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43A.2.1.2 on a proportionate basis, to the extent of their additional procurement.~~ CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the CPM designation arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.