Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM) Enhancements

Submitted by	Company	Date Submitted
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PG&E provides the following comments in the Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM) Enhancements stakeholder initiative, based on the Revised Straw Proposal issued September 19, 2018, and discussed in the stakeholder meeting of September 27th.

The CAISO's process enhancements should encourage generators to participate in the bilateral Resource Adequacy process and should consider modifying the compensation for both RMR and CPM processes to prevent using the CAISO mechanisms as a front stop. Additionally, PG&E believes that CAISO's CPM and RMR processes (if separate) should not create an incentive for generators to hold out for a more lucrative RMR compensation.

In its order rejecting the CAISO's proposed CPM Risk of Retirement tariff[1], FERC found merit in the concerns raised by stakeholders that changes to CPM and RMR terms and conditions can risk distorting prices and interfere with the bilateral process for RA procurement, altering the balance of incentives faced by Resource Owners. FERC encouraged the CAISO to pursue more "holistic" solutions through this stakeholder initiative process, rather than to tinker piecemeal with individual components of the backstop procurement mechanisms in isolation.

Since the FERC order, the CAISO has made some progress in its proposal, but has not yet taken sufficient steps that would prevent Resource Owners from circumventing the bilateral RA process to earn higher revenues through the CAISO mechanisms. The CAISO has also stated the importance of maintaining its broad level of authority to ensure that it has the ability to backstop for any unmet reliability needs. PG&E believes there must be a consistent and integrated approach to backstop procurement that prevents Resource Owners from navigating the process in an unjust and unreasonable manner, in order to use the CAISO backstop procurement processes in a manner that undermines the bilateral marketplace. This can best

1 See 163 FERC ¶ 61,023, "Order Rejecting Tariff Revisions" issued April 12, 2018 (Docket No. ER18-641-000).

be done by aligning the CPM and RMR compensation terms with the objectives of a competitive market to procure the least-cost resource to meet reliability needs.

In order to ensure the CAISO's mechanism does not become the front stop, PG&E believes that CAISO should evaluate a backstop mechanism that allows generators to recover their going-forward costs (plus a rate of return), but does not encourage generators to hold out from participation in the bilateral market processes. For resources at risk of retirement, we believe compensation based on going-forward costs would provide a better market signal. Compensation based on going-forward costs would effectively allow alternatives (such as transmission upgrades, operating procedures, preferred resources, and storage) to be considered and compared against the costs of backstop procurement. Resources needed for reliability (but, due to their economic offers, not picked up in the bilateral processes) would remain economically viable by recovering their going-forward costs plus a reasonable return, but the CAISO's process would not otherwise undermine the functioning of the bilateral market.

For any of the mechanisms the CAISO is considering, PG&E believes any resource that obtains CPM or RMR compensation should have its energy market profits netted back. This includes resources that have bid into the Competitive Solicitation process, those that receive the Soft-Offer Cap, and those that seek to recover their going-forward costs above the Soft-Offer Cap. Implementing these changes will align the incentives of RMR and CPM with the bilateral market and encourage Resource Owners to participate in the voluntary bilateral RA process, rather than take advantage of the CAISO's backstop procurement authority to arbitrage differences in compensation terms.

PG&E supports the extension of the full RA Must Offer Obligation (MOO) for RMR resources and recommends eliminating Condition 1 as an option for Resource Owners. As a general rule, RMR and CPM units should be required to bid in their incremental costs and have any energy market revenues above costs credited back to customers.

The CAISO has proposed maintaining both Condition 1 and Condition 2, and allowing the Resource Owner continued discretion to choose whether or not to receive the benefit of market revenues in compensation for allowing market participation by an RMR unit. With the addition of the Must Offer Obligation (MOO), this discretion no longer makes sense, because the unit will be available to the market and will be committed whenever its cost-based bids are below the market clearing price (so long as the unit is not exceptionally dispatched by CAISO operators for meeting reliability needs). Moreover, the uncertainty of forecasting methods and market revenues associated with an RMR resource may make the choice of Condition 1 unduly beneficial to the Resource Owner and provide a regulated return that is not just and reasonable. The RMR or CPM return should be sufficient to ensure that a needed resource receives appropriate compensation, while crediting back all energy market profits earned against the RMR costs borne by transmission customers.

PG&E opposes CAISO's proposal to use the same RAAIM performance mechanism for all resources with a MOO as this does not reflect the unique operational circumstances of an RMR resource.

PG&E appreciates that the CAISO has modified its position to ensure that the existing penalty provisions within the RMR agreement would be the basis of the RAAIM penalty for an RMR resource. This does not completely address the unique challenges of operating an RMR resource. The objective of RAAIM was to create an incentive for resources to meet the must-offer obligation by providing replacement capacity when resources go on outage in a given availability assessment hour. The CAISO assumes that RMR resources would be dispatched using the same process for RA and CPM resources, which is accurate for market dispatches. However, this is not accurate in the case for RMR dispatches. The CAISO would evaluate when an RMR unit commitment is required to meet local reliability needs, which may occur at different times (and for different reasons) than a system-wide capacity need.

If the unit isn't needed to meet local reliability, then it is allowed to submit market bids and deliver energy as a market transaction. RAAIM incentivizes unit owners to provide sufficient RA capacity to support energy market transactions, especially during high value times of day and year that align with system capacity constraints. RMR dispatches for a local reliability need or for other needs such as voltage control may not coincide with the RAAIM assessment hours. Moreover, the inability to provide substitute resources for unique RMR attributes would not fit the incentive mechanism of RAAIM (which assumes substitutes are readily available). The CAISO should not assume that a Resource Owner can simply substitute energy for RMR dispatches that are different than market transactions.

PG&E does not support expanding the CAISO's authority under the tariff to issue RMR designations for system or flexible needs.

The current surplus of system capacity precludes the possibility of an RMR designation being needed to preserve system reliability. Over the forward planning horizon, the RA requirements (including planning reserve margins) should be sufficient to guarantee that system resource needs are met. Moreover, even if enough capacity that is not picked up for RA were simultaneously to seek retirement, RMR designations would be triggered for many of these units to meet local needs before any possible system deficiency could occur. PG&E fails to see what problem the CAISO is trying to solve and objects to giving CAISO staff explicit discretion to issue RMR contracts for circumstances that may be purely hypothetical.

PG&E also objects to the CAISO proposal to give itself discretion to issue RMRs for flexible needs. First, flexibility is not a transmission reliability attribute for which an RMR can be an appropriate remedy. PG&E recovers RMR costs in its FERC-approved Reliability Services Balancing Account; it makes no sense to recover costs for flexible needs in this manner. Flexibility is an attribute of a portfolio of generation resources and the CAISO has not specified how it would test whether an individual resource has the attributes that would cause it to be uniquely necessary and irreplaceable to meeting system flexibility targets. As there are no transmission alternatives for flexible needs. If an RMR is created for a flexible unit, it is not clear what process would be used to allow the generator to be retired.

Costs for flexible needs should not be allocated to customers as a transmission charge but should remain a procurement cost, allocated to load serving entities through the bilateral flexible RA procurement process. Flexibility is a characteristic of the mix of generation resources and the need to procure sufficient flexible reserves to manage uncertainty in the forecasting of both load and resource behavior at different forward time intervals. Given the availability of energy, ancillary service, and capacity market instruments to procure flexibility, it is unclear what additional flexible system characteristics might warrant the designation of an RMR for a particular unit at risk of retirement. Creating a new RMR for flexibility will only serve to grant a guarantee of cost-of-service regulated transmission rate recovery to those flexible units that threaten to retire early, incenting further gaming of the retirement process.

PG&E does not support expanding the CAISO's authority under the tariff to issue RMR designations for "year two" forecasted needs.

The CAISO's proposal may skew generator incentives in contracting because the generator will know whether it has received an RMR designation prior to the bilateral market process. This could lead to resources "front running" the bilateral RA procurement processes and therefore result in higher RA costs. In addition, this would prevent the CAISO from considering cost-effective transmission alternatives that could be implemented immediately to honor the unit's explicit request to cease operation.

The CAISO should decrease the threshold for stakeholder notification in the ISO Daily Briefing from 100 MW to 20 MW.

The CAISO has suggested a size threshold of 100 MW for informing stakeholders via market notice of an update to the spreadsheet for a significant retirement letter. The intent of the spreadsheet is to provide stakeholders with an early indication of resources seeking to modify their generator status in a manner that would trigger a CAISO study of the need to use a backstop procurement mechanism to ensure reliability. PG&E appreciates the desire not to burden stakeholders' inboxes with retirement notices for very small resources, however, the suggested threshold of 100 MW is too high. As an example, it would have failed to identify at least two of the 2018 RMR designations (Feather River and Yuba City) that were approved by the CAISO for facilities within PG&E's PTO footprint.

PG&E recommends that the minimum threshold for market notice of a retirement letter be set at 20 MW. This size is consistent with the WECC standard for modeling aggregate capacity on the transmission grid and is consistent with the CAISO interconnection procedures that treat resources 20 MW or greater as Large Generating Facilities.