Pacific Gas and Electric Company®

Review of RMR and CPM Comments – Straw Proposal

Submitted by	Company	Date Submitted
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PG&E appreciates the opportunity to provide comments in response to the Straw Proposal issued June 26, 2018, and the discussion at the stakeholder meeting on July 11, 2018.

Overall, PG&E supports the direction the initiative appears to be headed in, holistically reconsidering significant features of the Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM) agreements in order to better align incentives in light of current market realities for gas-fired generators at risk of retirement. While PG&E has expressed concern regarding the slow pace of reform, and continues to be concerned by the possibility of additional, expensive backstop procurement, we believe the general direction of these reforms is correct and will result in improvements in cost-effectiveness in the longer run, especially in combination with the scope of changes being contemplated in the CPUC's Resource Adequacy (RA) Track 2 proceeding.

With regard to the *pro forma* RMR agreement included in the CAISO Tariff, PG&E has consistently advocated for reforms to this agreement as soon as possible. The current *pro forma* agreement is out of date and needs to be revised before any additional RMR agreements are executed by the CAISO. Revisions to the *pro forma* agreement should not be delayed while the CAISO and stakeholders seek to work through other RMR and CPM issues. Instead, changes to the *pro forma* agreement should happen immediately.

Below, PG&E addresses specific features of the current Straw Proposal (numbers refer to the list of 16 major features on pp. 3-4 of the Straw Proposal). For other features where no comment appears below, PG&E does not state a position at this time and neither endorsement nor opposition should be inferred.

Feature # 4 *-- All CPM and RMR resources will have a MOO.*

PG&E supports the extension of the full RA Must Offer Obligation (MOO) to both RMR Condition 1 and Condition 2. Under the RMR Condition 2 structure, where customers pay for the full use of the RMR generator under cost-of-service ratemaking, they should obtain in return the full benefit of any capabilities of the unit that can be economically delivered through market participation without impairing the reliability function which prompted the RMR designation in the first place. Similarly, RMR owners electing Condition 1 should be under a must-offer obligation, as well, so that customers receive the full value of the RMR agreement.

Feature #5 *– All CPM and RMR resources will be subject to RAAIM.*

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

The current RMR penalties in the RMR agreement should be used to incent performance. The RMR unit should remain exempt from Resource Adequacy Availability Incentive Mechanism (RAAIM) performance penalties and be subject to Non-Performance penalties pursuant to the current tariff. RAAIM penalties are lower than the Non-Performance penalties and could incent generators to operate in a manner that precludes them from providing the services when needed the most. 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. RMR resources do not have the ability to provide replacement since they are the only resource that can provide the reliability service, and the reliability need that the resource is providing may not coincide with the assessment hours (e.g., voltage support is needed for hours outside peak-demand hours). 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.

Feature #9 *– The ISO will clarify its authority under the RMR tariff to include that the ISO can designate a resource for system or flexible needs, which will be in addition to the ISO's existing RMR authority to designate for local needs and to meet Applicable Reliability Criteria.*

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

The current excess in 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 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.

Flexibility is not a transmission reliability attribute for which an RMR would be an appropriate remedy. Costs for flexible needs should not be allocated to customers as a transmission charge but rather as a procurement cost. 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.

Feature #10 – *In order to be offered an RMR designation, a resource must file a letter with the ISO, consistent with the requirements in its Participating Generator Agreement ("PGA"), wherein the resource states that it is planning to retire at a certain date. The ISO will expect the resource to also send a retirement letter to the California Public Utilities Commission ("CPUC") indicating the same intention.*

PG&E supports the CAISO position that only units which have given their 90-day notice for termination of the PGA should be studied for designation and be eligible to receive an RMR from the CAISO, if warranted. This clarification represents a significant improvement to the process, in that it reduces the ability for a resource owner to "test the waters" to see if a unit may be eligible to receive an RMR, while preserving its optionality to receive an RA contract or CPM (if an RMR is not available).

As part of this proposal, PG&E requests that the CAISO further clarify the anticipated timeline for the fall designation window for units either currently on an RMR agreement that may be eligible for renewal, or for units that will be designated starting January 1, based on a retirement in an upcoming calendar year. Currently, the CAISO presents any such RMR renewals or recommendations for new designations to its Board in the fall, allowing at least 60 days between the submission by the resource owner of the RMR agreement at FERC and the requested date for the RMR rate schedule change to go into effect. This has historically resulted in the CAISO bringing most RMR agreements to its Board no later than the end of October, which coincidentally aligns with the end of the CPUC RA contract window for the upcoming RA year.

For units that will now submit a PGA termination letter at least 90 days prior to a January 1 retirement (seeking a calendar year RMR for the full year), this notification can occur no later than October 1, which is prior to the final close of the RA contract window. A notification at this date would compel CAISO staff to study, recommend, and receive Board approval to designate an RMR for a needed unit within less than 30 days, in order to provide the 60 day FERC filing window. PG&E notes that the CAISO Board only meets approximately every six to eight weeks, and does not always have a scheduled meeting during the available fall time period[1], meaning an emergency meeting might have to be scheduled to handle any such RMR

[1] For example, in 2018, there is no scheduled Board of Governors general session meeting between September 5-6 and November 14-15.

renewals or new designations, if the PGA termination were received close to the 90-day deadline. PG&E encourages CAISO to provide additional information in the next Straw Proposal in order to clarify these timelines.

Feature # 10 *– The ISO will add authority under the RMR tariff so that the ISO can designate a resource needed for "year two" or "year three" with a bridge of appropriate length.*

PG&E does not support expanding the CAISO's authority under the tariff to issue RMR designations for forecasted needs in "year two" or "year three." 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 operating. This could lead to resources front running the bilateral RA procurement processes and 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.

Feature # 12 *– The ISO will update the allowed rate of return on capital that is currently in the RMR pro forma agreement.*

PG&E supports revising the current fixed 12.25% after-tax rate of return specified in the RMR *pro forma*. There are several possibilities for revising the *pro forma* rate of return. One approach, in the appropriate circumstances, would be to have the rate of return set at the same rate as the Participating Transmission Owner's (PTO) return on equity. *See e.g. Bluegrass Generation Co.*, 118 FERC ¶ 61,214 at P. 86 ("The Commission has generally allowed merchant generators to use the interconnected utility's authorized rate of return as a proxy.") In any event, the current fixed 12.25% after-tax rate of return was determined at a time when the federal corporate tax rate was 35% and should be immediately reduced to reflect the lower federal tax rate of 21%. To properly reflect the tax law change, PG&E estimates that the current fixed rate of 12.25% would be reduced by 1.75%.