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 February 20, 2018 by 5:00pm

The Issue Paper and Straw Proposal for Phase 1 Items that was posted on January 23, 2018 and the presentation discussed during the January 30, 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 issue paper and straw proposal items listed below and any additional comments that you wish to provide.

1. Comments on phase 1 proposal to make RMR Condition 1 and 2 Units subject to a MOO for Energy and AS.

Six Cities' Comments: The Six Cities strongly support application of a must offer obligation for Energy and AS to RMR Condition 1 and 2 resources. Conceptually, RMR resources receive compensation for capacity costs to ensure that they remain available to the ISO's markets. In the context of Resource Adequacy capacity and capacity procured under the ISO's Capacity Procurement Mechanism, the ISO assesses availability through compliance with must offer obligations. For the same reasons that must offer obligations apply to RA capacity and CPM capacity, RMR resources should be required to comply with must offer obligations for any and all products that the RMR resource is capable of supplying.

2. Comments on potential phase 2 items listed in issue paper and straw proposal.

Six Cities' Comments: With respect to Phase 2 scope and issues, the Six Cities offer below some preliminary observations and suggestions. However, as Phase 2 of this initiative evolves, the Six Cities may revise their views based upon input from other market participants or the ISO.

(a) At this time, there appears to be substantial overlap in the CPM and RMR procurement programs but also significant differences between the programs that may lead to inconsistent treatment of similarly-situated resources or resolution of reliability needs. The Six Cities support a comprehensive review of the CPM and RMR frameworks for backstop capacity procurement by the ISO with an objective of clarifying and rationalizing (i) the scope of the ISO's authority to procure capacity, (ii) eligibility criteria for ISO procurement, (iii) compensation terms for capacity procured by the ISO, and (iv) availability obligations for capacity procured by the ISO.

(b) With respect to the scope of the ISO's authority to procure capacity, the ISO should procure capacity only when (i) RA designations by LSEs fail to satisfy identifiable reliability needs (but recognizable needs should include flexible capacity requirements and capacity subjected to Exceptional Dispatch), or (ii) a resource that the ISO needs to maintain reliability will retire unless it receives capacity payments from the ISO. As a preliminary matter, the Six Cities believe that a construct generally similar to the current CPM competitive procurement process should apply to a type (i) situation, and a modified RMR approach should apply in a type (ii) situation. Stated differently, the Cities believe that it makes sense to provide for different treatment of resources that are planning to exit the ISO's markets absent procurement by the ISO versus resources that have not established an exit plan.

(c) Further analysis is necessary regarding eligibility criteria for the two types of ISO procurement described above, especially with respect to the demonstration that should be required of resources that say they are planning to exit the markets absent procurement by the ISO. The eligibility criteria should be practical but also should seek to prevent exploitation of a potential need for ISO procurement to front-run the RA market or engage in price discovery. Recently-submitted revisions to the Risk-of-Retirement CPM Tariff provisions include eligibility criteria, but Phase 2 of this initiative should consider whether further refinements to those criteria are appropriate as well as potential clarification of the ISO's process for determining when CPM or RMR procurement is necessary.

(d) With regard to compensation terms, the Six Cities' preliminary view is that the current structure of the compensation under the CPM competitive procurement process (market-based with soft-cap and opportunity to file with FERC to demonstrate costs above the soft cap) is generally appropriate for CPM designations for resources that have not demonstrated a plan to retire in the absence of ISO procurement. Likewise, if the current CPM competitive procurement structure is applied for resources that have not demonstrated a plan to retire absent procurement by the ISO, it would make sense to eliminate the Condition 1 RMR option.

For resources that demonstrate they will retire from the markets absent procurement by the ISO, compensation should be based on costs, and market revenues in excess of variable costs should be credited against capacity payments. There should be a reevaluation of the fixed ROE figure currently included in the *pro forma* RMR agreement, and the ROE allowance for any resource procured by the ISO should be consistent with then-current costs of capital. Potential methodologies for achieving such consistency would include establishing the allowed ROE on a case-by-case basis for procured resources through FERC proceedings, FERC establishment of a generic ROE allowance subject to periodic review and update, or adoption of a mechanism for indexing the ROE allowance.

The Six Cities oppose expansion of support for capital additions or major maintenance projects. Providing payments for such costs to resources that are expected to remain in the ISO's markets would have the effect of subsidizing such resources and distorting market outcomes. For capacity that the ISO procures in order to defer retirement, payment for capital additions or major maintenance projects should be considered on a case-by-case basis only when there is a compelling demonstration that the expenditures are necessary to keep the resource available for the time period it will be required by the ISO. In addition, the Six Cities recommend that Phase 2 of this initiative include a comprehensive review of existing provisions relating to capital additions and/or major maintenance expenses to ensure that ratepayers receive appropriate value for any payments the ISO makes to resources and that risks of market distortions are minimized.

(e) Any capacity procured by the ISO should be available to the ISO markets under essentially the same terms as are applicable to RA capacity and should be required to comply with must offer obligations for any and all products that the procured capacity is capable of supplying.

3. <u>Suggested additional items for phase 2 that are not listed in issue paper and straw and why the items need to be addressed.</u>

Six Cities' Comments: See the Cities' response to Item 2 above.

4. Other Comments

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

Six Cities' Comments: The Cities have no additional comments at this time.