Stakeholder Comments Template

Capacity Procurement Mechanism Soft-Offer Cap

This template has been created for submission of stakeholder comments on Capacity Procurement Mechanism (CPM) Soft-Offer Cap that was published on May 30, 2019. The paper, Stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismSoft-OfferCap.aspx

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on July 1, 2019.

Submitted by	Organization	Date Submitted
Carrie Bentley	*Gridwell Consulting for the Western Power Trading Forum*	*July 1, 2019*

Please provide your organization's comments on the following issues and questions.

1. Updating the soft offer cap

Please provide your organization's feedback on the update soft-offer cap topic as described in section 4.1 of the issue paper. Please explain your rationale and include examples if applicable.

Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

WPTF agrees with the scope of this topic as described in the issue paper and with the CAISO's characterization that this process is intended to consider updating the soft offer cap. The tariff does not require the offer cap to be updated every four years and instead merely states the CAISO must evaluate if updating the offer cap is appropriate.

WPTF appreciates the recognition that the resource fleet, and thus marginal resource in the bilateral capacity market, has and will continue to change over time. As noted on the stakeholder call, the updated CEC study used in setting the soft offer cap does not include cost estimates for all resource types.

If the CAISO opts to update the soft offer cap, there should be additional discussion around what the marginal resource is in the bilateral capacity market and whether these costs are higher than a combined cycle resource's going forward fixed costs.

Additionally, it is important to recognize that the soft offer cap is being used outside the CAISO in non-backstop policies and thus any change made to the soft offer cap from this effort will have an impact on those other policies in place.[1] For example, the CPUC has previously indicated that it will not approve procurement above the CAISO's CPM soft offer cap. It would be unfortunate for the CAISO to set a soft offer cap at a level that would prohibit the procurement of efficient resources simply because the cost of the new resources happens to be above the price as determined by the CAISO. One could easily see this scenario playing out over time; the cost estimate based on 2018 values per the CEC study will be outdated in the next few years when significant amount of procurement is expected to take place.

Thus, if the CAISO determines the cap needs to be updated, WPTF encourages the CAISO to come to stakeholders with a few options in terms of (1) how to set the soft offer bid cap, and (2) if using the CEC study, what resource type (or mix of resource types) to include.

2. Assessing payment for 12-month CPM designations

Please provide your organization's feedback on the 12-month CPM designation payment assessment topic as described in 4.2 of the issue paper. Please explain your rationale and include examples if applicable.

Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

WPTF appreciates the CAISO exploring the competitiveness of the current CPM process. As explained by the CAISO on the call, the soft offer bid cap serves as a way to mitigate for the exercise of market power. Given that the CAISO already has a cost-based bid cap in place to protect against market power, WPTF wonders why a secondary market power mitigation mechanism is being considered. WPTF could see either (1) a construct where the CPM soft offer bid cap is no longer cost based and set high enough to allow entities to reflect willingness to supply and then have a three pivotal supplier test in place to mitigate to cost-based bids if necessary, or (2) the current paradigm without a secondary market power mitigation mechanism.

The first option would be similar to the current market power mitigation in place for energy offers whereby the bid cap is set high enough to allow entities to reflect willingness to supply and only if/when market power is detected are the bids mitigated to a cost-based bid.

Additionally, having a secondary market power mitigation mechanism in place could introduce adverse impacts that are counter to the intent of the CPM process. WPTF agrees with the CAISO in that the CPM is intended to be a backstop mechanism and the preference would be for LSEs to procure sufficient RA capacity bilaterally rather

[1] *Proposals by CPUC Energy Division, PG&E, and SDG&E in R.17-09-020.*

than rely on the CAISO's backstop authority. If the CAISO implements a mitigation mechanism on top of a cost-based bid cap, it could end up with LSEs under procuring because it is cheaper for the CAISO to designate capacity via CPM than pay for capacity bilaterally.

3. **CPM bids above the soft-offer cap**

Please provide your organization's feedback on the CPM bids above the soft-offer cap topic as described in 4.3 of the issue paper. Please explain your rationale and include examples if applicable.

Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

WPTF encourages the CAISO to consider allowing resources that bid above the soft-offer cap to be compensated up to its full cost of service with energy rents going back to the CAISO. The resource owner would still have to justify the costs at FERC but would enable the resource that has been identified as being needed for reliability to recover its full cost of service. Furthermore, if resources are only allowed to recover costs based on a percentage above the GFFC rate, and the compensation is such that a unit cannot recover its full cost of service, there is likely to be adverse impacts on the bilateral RA market similar to what is discussed under item (2) above. A backstop cap that is lower than resources full cost of service will (1) result in reduced bilateral contracts since it would be cheaper to allow the CAISO to backstop and (2) create a paradigm where the CAISO's backstop procurement mechanism now becomes the primary procurement mechanism.

Additional comments

Please offer any other feedback your organization would like to provide on the issue paper for the CPM Soft-Offer Cap issue paper.

Based on the discussion during the stakeholder call, it is WPTF's understanding that the proposed monthly price cap is based on the annual cap as determined by the soft-offer cap formulation. WPTF asks that the CAISO consider whether it is appropriate to use an annual cap divided by 12 for a resource that lacks an annual bilateral RA contract and is being backstopped in a single month. In this case, it seems like it would be reasonable for the CAISO to require an affidavit as to current contracts and allow the resource to offer up to its actual needed GFFC.