RMR and CPM Enhancements Initiative

Stakeholder Written Comments on December 12, 2018 Second Revised Straw Proposal

RMR and CPM

a. Provide notice to stakeholders of resource retirements

Calpine – Calpine supports the posting of retirement/mothballing notices received by the ISO. We appreciate the RSP clarifications that the future plans of the resource owner will be held confidential to the extent possible. We do agree with the comments of PG&E and SCE that the "100 MW or greater" posting limitation should be reduced as to allow more transparency. A 25 MW limit would eliminate insignificant changes, while allowing for public disclosure of material retirements, such as LM6000, 45 MW peakers.

CPUC – Energy Division Staff (hereafter, "ED Staff" or "Staff") appreciates changing the stakeholder notification of resource retirements and mothballs from a threshold size of 100 MW to 45 MW. Staff supports additional transparency to the retirement process and appreciates the ISO's changes to include market notice when a resource 45 MW or greater submits a retirement notification.

East Bay Community Energy ("EBCE") - The ISO should either lower the MW-based notification threshold or eliminate it entirely as the state transitions to a cleaner and more decentralized procurement landscape. EBCE appreciates the ISO's consideration of stakeholder comments thus far and its commitment in the second revised straw proposal to lower the notification threshold to 45 MW from 100 MW. However, EBCE strongly supports other stakeholders' recommendations to lower the notification threshold to 20 MW or to eliminate it entirely. By lowering or eliminating the threshold for notification, the ISO will help ensure that all LSEs are properly notified of significant resource retirements. EBCE understands that apart from the ISO Daily Briefing, resource retirement notifications are discoverable on the ISO's "Announced Retirement and Mothball List" published online; however, EBCE respectfully points out that many LSEs, including CCAs, have limited ability to dedicate staff time to regularly monitoring the online list. Finally, to implement the goals of Senate Bill 100, there is a near-term need to ensure that resource retirements and procurement activities proceed in a coordinated manner, and a longer-term need to achieve 100% clean energy statewide. As the number of LSEs across the state continues to increase and procurement activities become more decentralized as a result, LSEs must have a clear and timely view of all potential opportunities to procure new resources to meet the need for new capacity and cleaner energy resources. The ISO should ensure proper notification of all potential retirements as first step toward meeting the goals of SB 100.

IEP - IEP supports the proposed Retirement Notice provisions.

NCPA – NCPA supports notices for all resource retirements, regardless of unit size.

Public Advocates Office ("PAO") - PAO supports providing notice to stakeholders when resource owners contact the ISO regarding the possible retirement or mothballing of a resource. The ISO should provide timely updates and publish the updated Announced Retirement and Mothball List on its website as the status of retirements change following ISO studies and generator actions, regardless of whether a new change meets the proposed 45 MW threshold to send an e-mail notification. The ISO should also

include information in the spreadsheet noting the date on which the data for a resource was last updated to complement the highlighting of updated information currently in place.

SCE - SCE supports the ISO sending market notices for 45 MW or higher resource retirements or mothballs.

SDG&E - SDG&E supports the ISO proposal now that the threshold for notice has been lowered to 45 MW or higher for both retirement and mothballing of a unit.

Six Cities – The Six Cities support this element of the proposal.

b. Use of RMR versus CPM procurement

Calpine – Calpine agrees with the SIO that the submission of a notice to mothball or retire must be submitted to the ISO prior to engaging the RMR process. In addition to previous comments which generally support the distinctions and clarifications on the use of the two mechanisms, Calpine continues to believe that the runway to RMR is unworkable. In an effort to avoid "front-running" the ISO continues to compress the timeline necessary for development, and negotiation, as well as prudent capital and operational decision making. The current timeline (P15) suggests that an RMR agreement be filed in "late Dec" imposing an obligation to offer on January 1. This is patently unworkable. First, FERC normally requires Section 205 requests to be filed 60 days prior to rates becoming effective. As such, the earliest rates would be in place (subject to refund) would be late February. Second, during the pendency of the 205 filing, the Resource Owner would be unreasonably obligated to offer and make the unit available without knowing the approval, form or level of compensation. Third, this timing certainly would not allow for scheduling of any major maintenance expenditures, even if a resource owner were willing to undertake them. And fourth, without FERC-approved rates including approved incremental capital, it would be imprudent to undertake such investment. Finally, the timeline presumes that a full cost-of-service study, including, apparently, a rate-of-return expert report, can be completed, negotiated and filed between the RMR designation in late October and a filing in December. This timeline is simply unworkable. The proposal to allow for a renewed "early window" for submission of an unavailability notice (retirement/mothball/etc.) does nothing to improve the constraints imposed. In fact, even if a unit is deemed needed early in the year, the Board would not approve the designation until October or November forcing an unworkable December RMR filing. In addition, the ISO proposal puts great weight in, and in fact depends on, the creation, implementation and success of an IOU central buyer. While that may eventually emerge, it was clear from the call that the many market participants have different views when and even whether central buyer will be approved and what functions that central buyer may take (local, or subarea, or flexible or system RA.) All of these questions, unresolved, have implications on the design and use of backstop mechanisms. This uncertainty may resolved through ongoing CPUC proceedings. Only then will the ISO be able to confidently take a "holistic" view of the functioning of the backstop mechanisms – as plainly directed by FERC. As we and several others have repeated said -- the ISO should wait to see what, if anything the CPUC approves as final and not appealable before taking anything to the Board.

CPUC – Staff appreciates establishing a timeline for requesting and approving RMR designations to allow for additional planning and retirement of the resource.

However, Staff remains concerned with the following aspects of the proposal that were not adequately addressed in the most recent draft.

- CPM and RMR compensation not adequately addressed.

- Anti-toggling provisions are not adequate to deter resources from moving between backstop and market participation.
- RMR retirement affidavit requirements need to be more stringent with a stronger showing.
- Proposal fails to adequately mitigate market power concerns.

Staff requests that the ISO work with stakeholders to address these aspects, in order to ensure that backstop procurement, gaming and market manipulation are minimized. In R.17-09-020 the Commission is working to address the changing nature of the bilateral RA market. It is important that the ISO continue to coordinate its backstop procurement reforms with the outcomes of a Track 2 decision and any additional subsequent decisions related to the resource adequacy framework.

Staff does not believe the ISO's second revised straw proposal is or will be ready for Board approval in March. The elements listed above are critical changes that need to be included in a comprehensive RMR CPM reform package, as requested by FERC in its April 2018 Order denying CAISO's CPM Risk of Retirement proposed tariff revisions.

The FERC order specifically states:

> We encourage CAISO to propose a package of more comprehensive reforms, as discussed below. We expect that any such proposal will recognize the need to balance appropriate compensation for resources with the consideration of ratepayer concerns, as well as the need to strike a balance between CAISO's backstop procurement authority and primary procurement of supply needed for resource adequacy purposes.

Additionally, FERC states:

> the issue of front-running the resource adequacy program is inextricably linked to issues of risk of retirement CPM compensation, the RMR program, and resource adequacy procurement in CAISO in general. The interrelated nature of these issues demonstrates the importance of CAISO's efforts in this area and the need to evaluate the fundamental reliability and market factors associated with resource adequacy as a whole.

The ISO's proposed compensation for CPM ROR/RMR and CPM continue to be inadequate to address the front running and withholding issues that are leading generators to choose the backstop path over a bilateral agreement. Without changes to compensation levels, generators may continue to withhold from the bilateral market and seek higher compensation through the backstop mechanism.

Additionally, anti-toggling provisions are not adequate under the ISO's proposal to address Staff's previously raised concerns regarding compensation incentives to switch between the ISO's backstop compensation and the bilateral market.

Finally, there continues to be signs of abuse with the current CPM and RMR process that may not be mitigated under the current proposal. Generators continue to submit retirement/mothball notices and then decide to not retire/mothball (Ormond Beach 2). Or the resource is mothballed for several months and then returned to the market (King City, Wolfskil). (CAISO's announced retirement/mothball requests list reflects these changes in resource retirement status.) The ISO's proposed changes to its RMR mechanism are intended to provide a retirement and risk of retirement vehicle for the ISO to assess grid reliability prior to making a retirement decision. However, the proposed retirement and risk of retirement vehicle, lacks necessary retirement request criteria and market tests needed to ensure that retirement requests are not leading to market withholding and manipulation.

RMR Compensation - Staff does not support full cost-of-service compensation, primarily because it allows for resources to switch (toggle) between market compensation and cost-of-service compensation. In its recent straw proposal, the ISO continues to propose full cost-of-service compensation for RMR resources concluding that this compensation structure is consistent with FERC precedent and does not need to be changed since RMR will be a mandatory designation.

The ISO's revised proposal attempts to address Staff's anti-toggling concern, by stating:

> the pro forma RMR Agreement is designed to limit annual compensation to only the cost for providing one year's service. The costs are based on established ratemaking principles using the resource book value and latest available cost of service. Separate capital expenditures approved for recovery under the agreement are also based on recovery of annual costs for each year of service and provide for recovery of unrecovered capital if the resource closes within six months of RMR Agreement termination. If the closure criteria is met, the ISO pays back the unrecovered portion of capital over 36 months, and the resource must pay it back if it returns to service at any point during the 36-month period. These provisions minimize incentives and ability to toggle on and off the RMR Agreement.

Staff does not believe the ISO's additional language (cited above), fully addresses the toggling concern identified by FERC for cost-of-service compensation. Additionally, the revise proposal fails to define the parameters which should be included in cost of service compensation (such as asset life limits). Without stricter anti-toggling provisions and guidelines around what costs can be included in cost-of-service compensation, generators may continue to prefer an RMR designation over a bilateral contract.

In its proposal justifying cost of service compensation the ISO points to FERC's NYISO order stating: "compensation to an RMR generator 'must at a minimum allow for the recovery of the generator's going-forward costs, with parties having the flexibility to negotiate a cost based rate up to the full cost of service.'" To comply with this order, NYISO developed both types of compensation: (1) an Availability Performance Rate (APR) based on a resources going forward fixed costs and (2) an Owner Developed Rate (ODR) based on a resources cost-of-service. However, FERC rejected the proposed tariff language, in part, because anti-toggling concerns were not addressed.

In its April 2016 Order FERC direct NYISO, to propose: "rules to eliminate, or at least minimize, incentives for a generator needed for reliability to toggle between receiving RMR compensation and market-based compensation for the same units" Additionally, the Order states that: "the Commission is concerned that any proposed provisions not provide an incentive for a generation resource to propose to deactivate earlier than it otherwise would have in expectation of being needed for reliability and, therefore, be able to receive more revenues under an RMR service agreement than by remaining in the market."

In response to this Order, the NYISO proposed to: (1) require RMR generators returning to market-based revenues after the termination of an RMR agreement to reimburse the NYISO for all capital expenditure costs paid under the RMR agreement (less depreciation) before returning to the market; and (2) exclude RMR generators from its reliability needs assessment base case, which it uses to determine its resource adequacy needs.

In its November 2017 Order, the FERC rejected NYISO's proposal, stating that it was:

> not persuaded that offering Commission-approved owner-developed rate compensation and excluding RMR generators from NYISO's reliability needs assessment base case are sufficient protections to "'eliminate, or at least minimize, incentives for a generator needed for reliability to

> toggle between receiving RMR compensation and market-based compensation for the same units,' even when there are no required capital expenditures

The Order further states that:

> [r]equiring RMR generators seeking to return to the market to repay revenues received pursuant to an RMR agreement in excess of the generator's going forward costs is necessary to remove the incentive to toggle, especially when there are no required capital expenditures. By requiring repayment of revenues received in excess of going-forward costs, the generator under an RMR agreement will be in a similar position to a generator without an RMR agreement.

The Commission directed NYISO to include this revision in its compliance filing.[1] To comply with the Commission's directives, the NYISO submitted the following revision to Section 15.8.7 of Rate Schedule 8 of its Services Tariff (which was accepted by FERC in an April 24, 2018 email order stating that the compliance filing satisfactorily complies with the November 16, 2017 Order).

> [T]the revised formula that applies to the claw-back of Above Market Revenues from former RMR Generators is now designed to claw-back the amount by which an Owner Developed Rate ("ODR") that NYISO pays in accordance with Section 15.8.5 of Rate Schedule 8 of its Services Tariff exceeds the going-forward cost based rate that the NYISO calculates in accordance with Section 15.8.1 of Rate Schedule 8 of its Services Tariff.

Staff does not believe the ISOs revised proposal adequately addresses the first type of toggling identified by FERC as documented in its 2016 FERC order. Since the ISO has chosen full cost-of-service compensation, the type one toggling concern is not addressed. Staff requests that the ISO revise its proposal to adequately address the type one toggling concern or change RMR compensation to be GFFC plus provisions for any needed capital additions to the extent not already included in GFFC. Staff believes this change would discourage generators from using the RMR mechanism to get higher compensation than they could through the bilateral procurement process.

Additionally, Staff does not believe the ISO has addressed the issues raised by Staff in earlier comments regarding establishing parameters around what costs can be included in cost-of-service compensation (such as asset life limits). Without addressing the compensation issue, resource may continue to opt for this mechanism over the bilateral process.

<u>CPM Compensation and Market Power Mitigation</u> -The ISO's straw proposal does not address how it will mitigate local market power concerns. During a stakeholder meeting on October 23, 2018, ISO staff clarified that local market power mitigation would be addressed by the CPM soft offer cap ($6.31/kW-month = $75.72/kW-year, with market returns). Staff believes the soft offer cap is too high (especially for a 12-month designation) to sufficiently mitigate local market power. It is too high because it includes both a 20% adder on a resources GFFC and the retention of market revenues. Compensation at this level may likely result in a generator with market power that is fully depreciated choosing the CPM path rather than the RMR path to secure a contract. Both DMM and SCE have also raised similar concerns. In its October 23rd comments DMM states:

> if the current CPM soft offer cap is paid to a resource for all 12 months of an annual CPM, this compensation is likely to exceed the annual GFFC of many resources. In addition to this fixed payment, CPM units keep all market revenues. To prevent pivotal resources from withholding capacity from the bilateral market in favor of compensation at the soft offer cap which might far

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[1] 161 FERC ¶ 61,189 at 84

> exceed a resource's annual GFFC, the ISO should reconsider the level of the soft offer cap for annual CPMs.

Similarly, SCE argues that a "12 month CPM should be treated like an RMR condition 2 contract with all market rents returned to offset the capacity cost of the resource. If the ISO still believes that competition for a 12 month CPM is feasible, then the ISO should employ market power screens when conducting the competitive solicitation process for such a CPM. SCE recommends that a three-pivotal supplier test based upon ownership be conducted. If the screen cannot be passed, then the ISO would terminate the competitive solicitation and enter into an RMR agreement instead."

Staff supports both DMM and SCE's recommendation listed above as ways to mitigate local market power and disincent resources from withholding from the bilateral market in favor of higher compensation through an annual CPM designation. This was the case in the annual 2018 CPM designations, in which two largely depreciated resources needed for local reliability received compensation at or near the CPM soft offer cap for all 12 months.

RMR retirement affidavit requirements need to be more stringent and include supporting financial information and documentation that substantiates retirement decisions- The ISO proposes to merge the existing risk of retirement ("ROR") CPM procurement authority from the CPM portion of the tariff into the RMR portion of the tariff so that there is one procurement mechanism for all ROR situations.

In its December 12, 2018 revised straw proposal, the ISO states that to be offered an RMR designation, a resource must submit a formal retirement notice to the ISO. The ISO's proposal includes resources seeking retirement status and resources seeking mothball status:

> This notice must include an affidavit by an officer of the company who has the legal authority to bind such entity attesting the resource will not remain in service and that the decision to retire is definite unless some other type of ISO procurement of the resource occurs, the resource is sold to a non-affiliated entity, or the resource enters into an RA contract. In the formal retirement notice to the ISO, the resource must state that it is planning to retire at a certain date, but no earlier than 90 days from the notice of termination of the PGA. The ISO will expect the resource to also send a notice to the CPUC, if applicable, indicating its intent to retire.[2]

However, under the current FERC approved CPM ROR tariff, generators are a required to submit an attestation that the resource's decision is definite unless CPM occurs. Adding additional reasons for a generator to not have to retire lowers the attestation/affidavit burden on the generator.

Additionally, the current CPM ROR tariff requires that certain specific information described in the ISO's BPM be included in the affidavit. The current tariff states that the resource owner must submit to the CAISO and DMM:

> an affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it will be uneconomic for the resource to remain in service in the current RA Compliance Year and that the decision to retire is definite unless CPM procurement occurs

The current Business Practice Manual language states that the affidavit must include the following supporting information and documentation:

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[2] CAISO December 12th Revised Straw Proposal p.?

4. Any analyses the resource owner performed, or had performed, to determine whether it is economic/uneconomic for the resource to remain in service during the current year including supporting documents.

5. Any document(s) confirming the formal decision of the Board of Directors, officers, or management of the resource owner, as appropriate, that the resource will be retired unless CPM procurement occurs.

The Business Practice Manual also provides that the ISO may request additional information and documentation so that it can perform its technical assessment. This information may also be reviewed by the Department of Market Monitoring:

> If the Department of Market Monitoring suspects that the resource's submission involves false information or market manipulation, then it may refer the suspected market violations to FERC's Office of Enforcement.

The ISO's current RMR proposal does not include the same types of information and documentation required under the current CPM ROR tariff. Staff is concerned that by not including these requirements and provisions, generators that are not truly seeking to retire will continue to use the retirement process, withholding themselves from the bilateral market to suppress supply and drive up market prices, only to return to the bilateral market for those higher prices.

The rules around resource retirements need to be firm and stringent to prevent market manipulation. Staff is concerned that the complete removal of these requirements from the current CPM ROR affidavit will lead to market manipulation behavior. There must be showing by the resource as part of its attestation that explains their decision to retire with evidence so that they can be held to that claim by the ISO, DMM, and FERC. Staff believes the Business Practice Manual language as currently written is critical to safeguard ratepayers from market manipulation. ED staff proposes that the at a minimum the ISO should require the same set of financial information and supporting documentation required under the approved CPM ROR tariff and BPM language.

DMM – Overall, the ISO's proposal includes significant incremental enhancements to the existing backstop procurement design. While the ISO's proposal is an improvement over the current structure, some key concerns remain unaddressed. The ISO's proposal improves the current backstop procurement design by making the following changes to the CPM/RMR framework:

- Compensation above the soft offer cap is changed to a GFFC structure instead of using Schedule F of the Pro Forma RMR contract.
- RMR resources are subjected to a MOO like RA resources.
- RMR Condition 1 is eliminated.
- The ISO will seek to limit RMR designations only to units that would retire without RMR contracts.

However, the ISO's proposal does not address the following concerns with the overall CPM/RMR framework:

- The ISO's proposed cost recovery above the soft offer cap may be excessive if a supplier can file for its actual GFFC plus 20% and also retain market revenues.
- The current soft offer cap may be too high for annual CPMs.

- When CPM solicitations are not competitive, resources can attain compensation at the soft offer cap plus retain all market revenues. This compensation may be significantly in excess of a resource's GFFC plus a reasonable return.
- While the ISO will seek to limit RMR contracts for avoiding resource retirements, the current process and proposed enhancements could still allow for units that have no intention of retiring to seek RMR compensation.

The ISO states it will not address changes to the CPM pricing structure in its current initiative, but has committed to reassessing its soft offer cap in a separate stakeholder process in 2019. Given the important and controversial nature of this issue, DMM encourages the ISO not to delay working on this effort with stakeholders and to keep stakeholders engaged by holding working groups to discuss potential cost studies and alternative pricing frameworks for annual CPM designations. The ISO also states it will not subject retirement notifications to an economic test. DMM suggests that the ISO, at the very least, set the expectation that cost filings will be subject to review by the ISO and/or DMM, and that submission of misleading information or evidence of market manipulation may be referred to FERC. This type of precedent is consistent with provisions the ISO has specified for risk of retirement CPM designations. DMM supports the ISO clarifying when CPM versus RMR should be used, and its proposals to require an offer affidavit when a retirement notice is submitted to the ISO. However, because two distinct payment structures would continue exist under the ISO's proposal, it may be necessary to add additional provisions around the RMR process to ensure the RMR process is only used when a resource is legitimately seeking retirement. Consistent with other ISO processes, resources seeking retirement which are needed for reliability could file at FERC for up to full cost-of-service under the ISO's proposal. Other ISOs, however, perform additional checks around their retirement processes to ensure only resources legitimately seeking retirement initiate this retirement process and potentially receive cost-of-service payments. In addition, as noted in prior DMM comments, other ISOs generally treat full cost-of-service as an upper bound on RMR compensation, which is ultimately determined and approved only through a filing at FERC. DMM suggests that the ISO develop more robust provisions around the RMR process similar to other ISOs. The ISO could require resources attesting retirement to submit cost information to the ISO/DMM for review. The ISO could also clarify potential consequences if it appears that a retirement decision constitutes potential physical withholding. The criteria for filing at FERC could also include the requirement that the generator make a showing that they intend to retire and it is not economic to stay on-line absent additional RMR compensation. This might also include a showing that the unit was not economically or physically withholding from the bilateral RA process. This framework appears more consistent with other ISOs' capacity procurement and RMR processes. Other ISO market monitors (PJM, NYISO, ISO-NE) require submission of resource costs and review resource costs to evaluate reasonableness of retirement decisions. Unit economics are evaluated, and the ISO or its market monitor will also assess suppliers' portfolios to protect against physical withholding. The expectation that cost information will be reviewed by the ISO/DMM could add another check to the resource retirement process to prevent self-selection between CPM and RMR. DMM notes that this type of precedent is consistent with provisions the ISO has specified for risk of retirement CPM designations.

EBCE - The ISO should create an "RMR Notice and RA Process Timeline" that reflects a *residual* buyer scenario for the RA program. EBCE appreciates the ISO's efforts to clarify the use of CPM and RMR procurement, and to explain how these forms of backstop procurement will interact with the RA program. The ISO in its second revised proposal includes an "RMR Notice and RA Process Timeline"1 that assumes the existence of a central buyer for RA capacity. EBCE notes that the central buyer issue is currently under active discussion in the CPUC RA proceeding, where many stakeholders strongly support

a residual – rather than central – buyer model. Since the existence of a central buyer is not guaranteed at this time, EBCE recommends that the CAISO revise the staff proposal to either (1) include an alternative "RMR Notice and RA Process Timeline" that reflects a decentralized procurement scenario, including a residual buyer, in addition to the central buyer-based timeline already provided; or (2) wait until the current phase of the CPUC RA proceeding concludes before defining how the three mechanisms (RA, CPM, and RMR) may interact.

IEP - IEP supports using CPM to "backstop" the CPUC's RA program in instances in which LSE RA procurement proves to be insufficient to ensure grid reliability (local, system, and flexible). Generator participation is voluntary, but if bids are submitted and accepted, generator participation is mandatory. Generators will be subject to a MOO if designated. Generators will be subject to the RAAIM if designated. IEP supports using a single program such as RMR (rather than CPM) to address Risk-of-Retirement backstop procurement. We have concerns, however, about the proposal to impose a RAAIM penalty on RMR contracted resources when unavailable (see below).

NCPA – NCPA supports the clarification offered in the second revised straw proposal.

NRG - The ISO's proposal to not designate a unit as RMR until the September Board meeting – which could happen late in September - leaves inadequate time for the RMR owner to prepare the complex and extensive cost-of-service filing required by the RMR contract by the end of October.

PAO - PAO supports the ISO's clarification stating that a resource that is bid into the CPM CSP cannot decline a CPM designation. In particular, the PAO agrees with the proposal that if a resource that is not bid into the CSP declines a CPM designation, the resource must submit a legal affidavit attesting the resource will retire, unless some other type of procurement occurs, before the ISO considers it for an RMR designation. These measures are improvements on current requirements and may potentially dissuade resource owners from trying to game the backstop procurement processes. Also, the ISO's proposal currently states that "[i]n the formal retirement notice to the ISO, the resource must state that it is planning to retire at a certain date, but no earlier than 90 days from the notice of termination of the PGA." It does not discuss when the PGA will terminate. The Public Advocated Office recommends that CAISO clarify that it will terminate the PGA by an established deadline for a resource with a legal affidavit attesting that the resource will retire, unless some other type of procurement occurs, if the CAISO does not find a need for the resource. This clarification would support the process for resource retirement and discourage resource owners from claiming they plan to retire or mothball resources in order to gain information about the need for their resource that would not otherwise be available. The ISO also proposes that if a resource owner with a RA contract in the current year plans to retire or mothball a resource, it may submit a notice by February 1 of the current RA year. The ISO would inform stakeholders of results of the reliability study by May 15 and would not start the RMR procurement process for such a resource until September 1, providing an opportunity for procurement through an RA contract. PAO recommends that the ISO clarify that it will use the existing local and flexible capacity technical study processes to determine the reliability need for a resource when a resource owner submits a notice of its intent to retire or mothball the resource. Submission of a notice by February 1 will allow review of the resources through the existing studies. Using the existing local and flexible technical studies will also ensure that any need for such resources will be considered as part of the current RA proceeding when the studies are submitted to the CPUC. The CPUC can consider planned procurement to address any market power issues through the RA and IRP proceedings. The ISO rejected proposals for economic tests to determine whether resource owners are seeking RMR contracts for resources that are actually uneconomic. However, the ISO's straw proposal does not sufficiently address the potential for resource owners to seek RMR agreements without actually intending to retire or mothball their resource. The legal

affidavit provides greater weight in demonstrating an intent to retire a resource, but it does not apply to requests to mothball a resource. Additionally, a resource owner could simply mothball a resource for two months and then return to service. The ISO should discuss the eligibility of resources for mothballing and apply additional conditions to deter gaming, such as extending the minimum time period for mothballing a resource or limiting the frequency of requests to mothball.

PG&E - The ISO proposes that mothball requests will be studied for RMR designation, identically to retirement requests. PG&E disagrees with this aspect of the proposal. Although the ISO proposes to require the same attestation by a Company officer as for a retirement, there is nothing definitive about a mothball request, which can either be rescinded at any time prior to the effective date of the mothball, or the unit may mothball and then come out of mothball status with as little as a 30 day turnaround. The ISO proposal to treat a mothball request equivalently to a retirement for purposes of RMR assessment therefore permits price discovery for resources seeking to earn more than they would in a competitive market. Additionally, as PG&E noted in previous comments, the timing to file mothball requests is inconsistent with the timing to file RMR agreements at FERC and the ability to rescind the request even with an officer attestation imposes minimal effort. The ISO has not proposed additional rules that hold resource owners accountable for the attestations provided when alternatives are subsequently identified and the deficiency is mitigated without contracting for the unit in question. For the above reasons, PG&E is concerned that the mothball request remains a significant loophole that risks undermining a more "holistic" backstop procurement process. If left as is, it is likely to lead to continued gaming by resource owners and unnecessary and excessive costs being borne by customers.

SCE - SCE does not object to the lack of market power mitigation leading to a few months' CPM awards but annual CPM awards have not been demonstrated as competitive. The ISO has not demonstrated that the soft-offer cap in the CSP is a sufficient market power mitigation mechanism for designations extending 12 months. SCE reiterates its request for a three pivotal supplier test to be implemented for any annual CSP. If the CSP fails the three pivotal supplier test, then the ISO should pursue a RMR agreement, since the negotiation and direct FERC approval of such a contract are significantly more effective than going forward fixed costs plus 20% plus retaining market rents.

SDG&E - SDG&E opposes the ISO proposed use of RMR versus CPM. The timing of the CAISO process for generators puts notice far ahead of the normal annual RA program timing and front runs the CPUC process. It would be possible for generators to give notice of mothballing in February and find out if it is an ERR before annual RA contract negotiations begin. This effectively sets a full cost of service floor for LSE RA contract negotiations if the unit is an ERR. If the unit is not an ERR, the unit can exit mothballing with little or no harm because the attestation is not strong. This would drive up the cost of reliability for ratepayers. Also for both RMR and CPM units all available attributes (like ancillary services and flexible RA) must be included at no additional cost and energy margin should be maximized and credited against cost.

Six Cities – As explained in prior comments, the Six Cities are generally supportive of the framework proposed by the ISO, which is to utilize RMR, rather than the CPM, to address resource retirements. Participants during the stakeholder call on December 20th raised questions about how the CAISO's proposed RMR procurement process would work with respect to mothballing resources (as opposed to retirement). The Six Cities urge the ISO to consider whether there should be different or additional requirements applicable to mothballing resources versus resources that are definitively committing to retire. For example, will a resource that asserts its intention to mothball be required to do so in the event the resource is not deemed needed? For what duration, and will the circumstances in which subsequent mothballing is not required be the same as for potential retirements (i.e., a facility sale, alternate ISO

procurement, or entry into an RA contract)? The Six Cities note the ISO's view that rules prohibiting false statements and misrepresentations to the ISO should be adequate to thwart retirement and/or mothballing requests that are simply attempts to engage in price discovery or gauge the level of need for a particular resource. Are there any additional safeguards specifically with request to mothballing requests that should apply?

WPTF - The ISO has done a good job at explaining the functional differences between RMR and CPM and its intent to ensure each mechanism functions for its intended purpose. The CAISO has explained why, how, and when an RMR designation will be used versus a CPM designation.

c. Explore whether Risk of Retirement CPM and RMR procurement can be merged into one procurement mechanism

Calpine –Calpine supports the elimination of CPM ROR, and the retention of RMR.

IEP - At this point, IEP is not supportive of merging the CPM and RMR paradigms because they are designed to address distinctly separate conditions that may arise in the marketplace. Moreover, any consideration of whether the RMR and CPM mechanisms ought to be informed by the CPUC RA Track 2 Decision (and perhaps the Track 3 Decision).

NCPA – NCPA supports merging ROR CPM with RMR.

PAO - The CAISO proposes to merge ROR CPM authority and RMR procurement under one mechanism under the RMR tariff. Under this proposal, the ISO could execute an RMR agreement with a resource for Year 1 if it identifies a need for the resource in Year 2. As discussed in Section B, the ISO should clarify that it will incorporate any study of reliability need in Year 2 into the existing local and flexible capacity technical study processes. The studies would then be submitted to the CPUC. The identification of any need in Year 2 indicates ongoing market power issues that the CPUC should work to address by considering development of resource alternatives or other solutions. The ISO should also clarify that a resource is only eligible for an RMR based on a need in Year 2 if the resource owner submits a legal affidavit stating its intent to retire. Requests to mothball the resource should not qualify for an RMR based on a need in Year 2. Mothballing a resource removes it from service temporarily, so it could still be available for service in Year 2. It is not necessary to procure a resource that intends to mothball through an RMR agreement for Year 1 unless there is a need in Year 1.

PG&E - The ISO proposal seeks authority to issue RMR designations for "year two" forecasted needs with bridge compensation in year one. This proposal not only results in over-procurement during year one but the "year two" need could fail to materialize when re-evaluated at the end of year one, leading to payments for unneeded capacity. PG&E objects to this element of the ISO proposal.

SCE - SCE supports the ISO proposal.

SDG&E - SDG&E supports moving ROR out of CPM and into RMR. CPM is voluntary so the mandatory RMR process is appropriate for an ERR.

Six Cities – The Six Cities have no additional comments at this time on this aspect of the proposal.

RMR

d. Develop interim pro forma RMR agreement

NCPA – NCPA supports the development of the interim pro forma RMR agreement.

NRG - Given the significantly changed nature of the RMR contract, NRG still believes the ISO should throw out the *pro forma* RMR contract, which was developed for a totally different purpose than for what the CAISO now intends to use the RMR contract, and develop a new *pro forma* agreement. With regards to Table 3, NRG is concerned with the ISO's proposal to throw out Schedule C and rely on the bid cost recovery process to guarantee recovery of fuel costs. NRG had to expend significant cost and effort to file at FERC to recover unrecovered fuel costs in 2018 and objects to subjecting the RMR owner to that risk – a risk that could be greatly magnified by the ISO's proposal to submit the RMR unit to a full-time cost-based MOO (which NRG opposes; see below).

SCE - SCE supports the ISO proposal.

SDG&E - SDG&E supports the ISO proposal.

Six Cities – The Six Cities understand that this step has been completed.

e. Make RMR resources subject to a must offer obligation

Calpine – Calpine continues to object to a must offer obligation with mandatory marginal-cost-based bids for Condition 2 resources as it will result in price suppression. Also, in order to avoid administrative and unintentional disputes related to the calculation of variable costs, if the ISO enforces a variable cost-based MOO, the ISO should calculate and insert bids.

CPUC – ED Staff continues to support the ISO adding a MOO to RMR resource designations.

IEP - IEP accepts that generators operating under an RMR contract will be subject to the MOO.

NCPA – NCPA supports making RMR resources subject to MOO.

NRG - The RMR contract was developed to allow the ISO to dispatch cost-based energy from a generating resource when that resource's energy was required to address a local reliability need. The RMR contract had an implicit MOO, as the ISO could dispatch the RMR resource *to maintain local reliability* even if the resource had not bid into the ISO's energy market. The ISO is now proposing to fundamentally change the purpose of the RMR contract from a means to access cost-based energy *when that energy is needed to maintain local reliability* to a means of compelling a unit that would otherwise retire to provide *full-time, cost-based 24x7 resource adequacy service.* The most likely scenario that would result in a unit receiving an RMR contract remains that the ISO needs that unit to maintain local reliability under a limited set of operating conditions, yet the unit that is designated as RMR under those conditions will now, under the ISO's proposal, be compelled to provide cost-based offers at all times, not just when it is needed for local reliability. This expansion of required cost-mitigated offering and service from a unit that is likely needed only for local reliability under certain conditions is a concern. The ISO's proposal for a full-time, cost-based MOO creates a host of issues, especially when coupled with the ISO's proposal to remove the availability provisions from the RMR contract and subject the RMR unit to RAAIM. A unit that is forced to offer at cost at all times may now run far more frequently than it has run in recent times; how will the ISO compensate that unit for the additional wear and tear and forced outage risk it will incur? If the RMR unit is use-limited, will the ISO's cost-based offer include appropriate opportunity costs to properly ration the use of the unit so that it will remain available when it is needed for the purpose for which it was designated as RMR? Will the ISO's cost-based offer cost include the *real* price at which the

RMR owner must procure fuel for the unit, or will the RMR owner be required to file at FERC to recover unrecovered gas costs on top of the cost-of-service filing they were compelled to make because their unit was designated as RMR? NRG opposes the ISO's proposal for a full-time cost-based MOO. Such a proposal is likely inconsistent with the reason why the unit was designated as RMR in the first place (e.g., a local reliability need that exists under some, but not all, conditions). NRG has no problem with the unit providing cost-based energy when that energy is needed for local reliability, though the ISO's energy market local market mitigation should take care of that without the need to enforce a full-time cost-based MOO. It's one thing for a unit owner that voluntarily signs an RA contract to take on that full-time MOO. It's another thing to force that full-time cost-based MOO on a unit that would otherwise retire. RMR was never intended to be an RA surrogate; if the ISO is now making RMR an RA surrogate, it needs to carefully re-think how MOO aligns with all the other provisions of the RMR contract (like service limits). Along with all the other provisions that have to be updated, it's critical for the ISO to get the gas price in the MOO right (the ISO markets still don't successfully flange up with the gas markets, and, and subjecting RMR owner to another FERC filing to recover costs they incur because of that misalignment is unreasonable.

PAO - PAO continues to support the ISO's proposal to apply a MOO to RMR resources for the energy and ancillary services markets. Applying a MOO will better integrate RMR resources into the energy markets and align the treatment of RMR resources with RA requirements, ensuring ratepayers receive the most benefit from resources they pay for.

SCE - SCE supports the ISO proposal. SCE also supports the ISO proposal on cost allocation. While SCE had initially raised a concern during the stakeholder call, after further considering the process, SCE understands it to be appropriate. The RMR resource is acquired as a tolling contract paid for by TAC area customers. When the same resource is awarded in RUC, it benefits the whole market and thus any RUC cost allocation should be to the whole ISO BA. However, since the contract is paid for by the TAC that pays for the cost of service of RMR, the same TAC area customers should receive any market rents from RUC since they were the reason for the resource being available in RUC to begin with. SCE supports the ISO's proposal on RUC cost allocation for awarded RMR resources.

SDG&E - SDG&E supports the ISO proposal.

Six Cities – The Six Cities support application of a MOO to resources under an RMR contract and agree that the obligation should be a 24x7 requirement. The proposal to require resources to submit cost-based bids (inclusive of any major maintenance costs) with crediting for market rents above variable costs is reasonable.

WPTF - It is WPTF's understanding that the ISO's intention is to clearly distinguish between why and when RMR is used versus CPM designations. However, WPTF remains concerned that the ISO's proposal is still muddling the line between RMR and CPM by applying an at-cost MOO on RMR resources. A MOO is established when the market is unable or unlikely to provide sufficient incentives for resources to optimally participate. A MOO will prevent the opportunity for physical withholding to increase market prices or ensures reliability through the RA construct. Given that the ISO has clearly indicated RMR is not RA, this appears counter to the intention of MOO and thus crosses the RMR construct into the RA paradigm. As previously noted, applying a MOO on RMR resources that are indifferent to market revenues would adversely impact market prices; requiring the resources bid in at ISO estimated cost during all hours will suppress market revenues. WPTF is struggling to understand the concept of requiring resources that are identified as needed for grid reliability – e.g., system conditions that may materialize for a small subset of hours each year – in such a way that could adversely impact prices every hour of the

year. WPTF questions if this is a workable structure. WPTF supports having availability incentives in place for RMR resources but reiterates that imposing a MOO and subsequently applying RAAIM is not the best way to provide such incentives; the ISO should explore other modifications. Thus, WPTF asks that in the next iteration, the ISO discuss (1) the pricing impact of the current proposal and (2) other alternative incentive structures, such as those WPTF included in previous comments. Additionally, for the ISO to impose a MOO at a specific price (i.e. ISO estimated cost), seems very close to fully mandating exactly how the resource must participate, which seems counter to the ISO retaining independence.

f. Make RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Calpine – Calpine supports the implementation of RAAIM for RMRs, so long as the units are not required to self-schedule and the other availability penalties of the pro forma RMR contract are eliminated.

CPUC – ED Staff continues to be supportive of making RMR resources subject to the same RA availability incentives as RA resources. However, given the potential changes to RAAIM as proposed in the RA Enhancement Initiative Straw Proposal, it will be very important to thoughtfully design a RAAIM mechanism that incentivizes both resources under cost of service contracts and under a market-based contracts to be available to the ISO when they are needed. This may require carve outs for RMR/cost of service contracts, where lowering its NQC will not impact the price it gets paid. The ISO should take this into consideration when refining is RAAIM mechanism in the current RA Enhancements stakeholder initiative.

IEP - IEP is concerned that the ISO proposes to make RMR resources subject to the RAAIM penalty, given that a RMR resource by definition has no substitute(s). RMR receive full cost-of-service compensation, and there is no incentive for them to not be available unless unit is taken out of service through no fault of its own. Accordingly, the proposal to impose a RAAIM penalty on unavailable RMR resources warrants further discussion

NRG - The ISO, in the RA Enhancements initiative, is proposing to overhaul the RAAIM. In the RA Enhancements Straw Proposal (Part I), the ISO notes that it plans to provide "…a holistic proposal for RAAIM, outage substitution rules, and RA valuations." (December 20 Straw Proposal Part 1 at page 11). The current availability provisions in the RMR contract account for a unit's forced outage history and expected planned outages; the current RAAIM provisions do not. Eliminating the RMR contract availability provisions and subjecting RMR units to RAAIM would be a highly controversial move, even knowing what the structure of RAAIM is right now. Eliminating the availability provisions and subjecting the RMR unit to RAAIM when the ISO and market participants have no idea what RAAIM will look like going forward, and won't know for many months, is unacceptably speculative. For this reason alone, NRG respectfully urges the ISO to delay the CPM-RMR process so the consideration of transitioning RMR units to RAAIM can be synched up with the "holistic" redesign of RAAIM.

PG&E – The ISO has repeatedly advocated for the adoption of the RAAIM for RMR resources in order to reduce the accounting and invoicing complexity associated with the current RMR contract structure. Although PG&E agrees that reduced administrative burden can be a worthy goal, we remain unconvinced that it outweighs the risks in this instance. PG&E notes that the ISO has provided no cost estimate or description of the burden that would allow parties to compare the cost of RMR contract administration, as against the potentially significant reliability impacts of any loss of RMR availability due to inadequate incentives to maintain unit availability to meet specific RMR needs. The ISO proposal to apply RAAIM to RMR would provide RMR unit owners exactly the same incentive as applies for resources under RA and CPM contracts that are compensated quite differently. If the assessment incentives are identical then

there is no basis for inconsistent compensation across the procurement platforms. PG&E agrees with SCE's repeated statement during multiple stakeholder meetings: ratepayers are paying a premium for a superior product with RMR; they should be getting that superior product in terms of unit availability. PG&E's recent experience backs this up. The RMR resources in PG&E's territory were each designated for a specific distinct need -- either a local reliability contingency based on a specific local load profile or voltage support need. These specific needs do not necessarily coincide with the system needs for which the RAAIM assessment hours are developed and there is no reason to assume that a unit which is available only for the RAAIM hours would provide the reliability for which the RMR was designated. PG&E contends that the RMR units, which are compensated at their full cost of service, should have a stronger incentive to be available at the specific times that match the specific needs for which they are being retained and not allowed to retire. These same units may then provide additional value through market participation at other times, leading to a reduction in overall RMR costs borne by customers. However, market participation of RMR units should only be allowed to the extent that doing so does not in any way impair or reduce their availability to meet the specific reliability need for which they were designated as RMR.

SCE - RAAIM is inappropriate for RMR compensation. RMR prices are usually much higher than RA. If there is a premium paid for capacity, LSEs should have an assurance of benefits for what they have paid in the form of energy availability. As SCE has stated previously, a RMR contract pays for the entire fixed revenue requirement and pays the resource its costs when dispatched (by clawing back any rents beyond the cost). This structure is effectively a tolling agreement in which the buyer should be receiving all benefits of the resource which include not only its capacity value but its energy value as well. While the ISO is focused on the capacity associated with the resource, the LSEs are paying for the capacity value as well as the energy value of the resource. The dispatch of energy at cost is the manner in which the LSE will receive that energy value. While the ISO proposes that the resource would be subject to a 24/7 must offer obligation, the use of availability assessment hours will result in the loss of the contract capacity revenues only if the outage occurs during a limited duration of the day. The energy value of the contract however should be available to LSEs for more than those limited set of hours. As such, the RAAIM mechanism by itself is not sufficient to ensure that the LSEs that pay for the resource receive commensurate benefit from the resource. SCE continues to believe that instead of using RAAIM unaltered, the ISO, through the RMR negotiation, should define the minimum availability of the resource. Outages above this amount would result in a claw back of the capacity payment for the period of unavailability. The minimum availability can and should be shaped based upon the reliability need and typical energy prices for the month. That is, more valuable months and months with more reliability need should have fewer acceptable outage hours. Additionally, the ISO has proposed RAAIM applicability based on its claim of simplification of settlements between RMR, CPM, and RA resources. However, there is no evidence that the number of RMR resources will become significant to the point that the simplicity benefit from settlements will not remain de minimis. Alternatively, the ISO can demonstrate to stakeholders that the monetized cost from the existing RMR settlement process is unduly burdensome to the ISO. SCE does not support this part of the ISO proposal.

SDG&E - SDG&E opposes the ISO proposed use of RAAIM for RMR. The ISO is trying to equate RMR to RA shown by LSEs for simplification, but they are VERY different. RAAIM has lots of problems even with CPM that it was designed for. An RMR penalty should be based on actual performance over all hours and not just the limited RAAIM assessment hours and without a further dead-band to avoid penalties like RAAIM does. The penalty amount should be strictly tied to the individual level of RMR payment not a generic level like RAAIM. Applying RAAIM tor RMR resources is inappropriate and would be far less accurate than even the current RMR penalty structure. RAAIM does not work well for CPM (the ISO is

considering changing RAAIM for CPM in the RA enhancements initiative) and would work much worse for RMR. All RMR units should be ERRs and need the strongest possible incentive to be available because any lapses decrease reliability. The dead band and limited availability hours used in RAAIM are counter to reliability.

Six Cities – The Six Cities support an appropriate enforcement mechanism to ensure that resources subject to RMR procurement perform and provide the services for which they are being compensated. The Six Cities understand the ISO proposal to be use of a penalty that is either the applicable RAAIM penalty price or the RMR agreement price, whichever is higher. The Six Cities question whether application of incentive availability payments are appropriate within the context of an RMR agreement. PG&E and SCE have identified concerns with respect to the application of RAAIM to RMR resources. Their concerns appear to be based primarily on a lack of alignment between the purpose and structure of the RAAIM versus the nature of the proposed RMR MOO, which is intended to ensure that customers receive the energy and capacity benefits of a resource that is being procured at its full cost. In light of these concerns, the ISO and stakeholders should focus on adopting a performance mechanism that would best encourage the expected level of performance under the RMR agreement. Requiring a non-performing RMR resource to return the capacity payment associated with any period of non-performance appears to be a relatively straightforward enforcement mechanism that would be more consistent with the RMR structure. Although the ISO's proposal to use the RAAIM is based on a desire for consistency with the RA and CPM mechanisms and streamlined administration of RMR contracts, stakeholders have not been provided with information demonstrating that use of a different penalty pricing structure for RMR agreements would result in an undue or inappropriate administrative burden for the ISO. Finally, if the ISO believes that additional information regarding the outage management process can help resolve concerns regarding the use of RAAIM, the Six Cities urge the ISO to provide that information to stakeholders in the next proposal.

g. Consider whether RMR Condition 1 and 2 options are needed

Calpine – Calpine supports the full cost-of-service (Condition 2) structure for RMR compensation. While the elimination of Condition 1 does allow for settlement simplification, Calpine continues to believe that this market-revenue, risk-sharing option could assist greatly in the settlement of RMR contractual matters.

CPUC – ED Staff supports the ISO's decision to remove Condition 1 option from its proposal.

NCPA – NCPA supports elimination of condition 1.

NRG -It is difficult to make such a judgment in isolation; the viability of keeping or dropping either Condition will depend on how many other things in this (and other initiatives) turn out.

SCE - SCE supports the ISO's proposal to eliminate Condition 1.

SDG&E - SDG&E supports the ISO proposal to eliminate RMR Condition 1.

Six Cities – The ISO's proposal to eliminate Condition 1 appears to be reasonable.

h. Update rate of return for RMR compensation

Calpine – Calpine continue to prefer a "hard-wired" ROR. If the ISO moves forward with a project-specific formulation, it must allow the resource to include the costs of developing the ROR showing (by an outside expert, as needed) in the cost-of service.

CPUC – In its second revised straw proposal, the ISO proposes "to eliminate the existing 12.25 percent from the pro forma agreement and require the RMR owner to establish the rate of return for schedule F

cost as part of its initial rate schedule filing at FERC following designation for RMR service. The rate of return for new capital additions under schedule L will continue to be handled per schedule L submission with a rate of return to be established for each project based on the costs of each project. This approach will result in an up-to-date rate of return for future RMR agreements." Staff supports of this change since it will require the generator seeking compensation to justify its capital structure to FERC.

IEP - IEP supports the ISO proposal to update the ROR for RMR compensation. As a general principle, RMR is to be employed as "backstop" to LSE procurement (or in cases of market power that is, in part, a reflection of inadequate procurement in alternative capacity resources). Under the current California market structure that depends on forward, bilaterally contracting to ensure adequate capacity is installed and available (versus, for example, a centralized capacity market), then the ISO's backstop procurement mechanisms (RMR and CPM) must send strong market signals to incent forward, LSE procurement in a timely manner. Establishing a ROR as proposed helps achieve this end.

NCPA – NCPA agrees that the fixed 12.5% ROE should be removed from the pro forma RMR. NCPA does not oppose the ISO's proposal to require a resource owner to propose and justify a rate of return for its resource in its RMR rate schedule filing at FERC following RMR designation. NCPA also would not oppose a default presumption that an average of the three IOU's transmission ROEs is a just and reasonable ROE for an RMR unit.

NRG - NRG does not object to the ISO proposal for the RMR owner to develop and justify its own rate of return.

PAO - The Second Revised Straw Proposal proposes to eliminate the current 12.25% rate of return for RMR agreements and instead require the resource owner seeking an RMR agreement to calculate and support a rate of return for each agreement. Currently, and as proposed, to calculate the authorized return of an RMR project, the rate of return is multiplied by the resource's net investment. The ISO acknowledges that using a specific rate of return for each RMR agreement would create additional work for the RMR process. PAO supports the proposal of the DMM to compensate resources based on their GFFC plus a reasonable profit. DMM's approach would provide for payment of the costs to operate the resource with a fair profit margin that would be preferable to departing the market through retirement or mothballing. The reasonable profit should be an amount above GFFC that ensures the generator doesn't experience net expenses during the RMR agreement term. The prime rate is used to set rates of interest for private loans and is partially driven by the federal funds rate set by the Federal Reserve System. The Wall Street Journal ("WSJ") Prime Rate, currently 5.5%, is a commonly used index of prime rates and would be suitable for the ISO Tariff to refer to. The Tariff may also use an average annual prime rate or allow generators a dynamic rate of recovery which shifts when the WSJ prime rate changes due to national market trends.

PG&E - PG&E agrees with the ISO proposal to require the resource owner to propose and defend its rate of return in filing its individual RMR rate schedules at FERC.

SCE - SCE supports the ISO proposal to have the Generator Owner propose a rate of return within the RMR agreement which will be subject to the FERC approval process.

SDG&E - SDG&E supports the ISO proposal to have the Generator Owner propose a rate of return within the RMR agreement which will be subject to the FERC approval process.

Six Cities – The ISO's proposal to require resource owners to support a proposed rate of return in their cost of service filings to FERC is reasonable.

i. Align pro forma RMR agreement with existing RMR tariff authority that currently provides ability to designate for system and flexible needs

Calpine – Calpine supports the ISO's interpretation that is already has the ability to preserve reliability, including, as needed the RMR designation of any resource.

IEP - IEP supports aligning the RMR agreement with the RMR tariff authority to designate units to meet system, local, and flexible capacity needs. We note that the costs of RMR flexible capacity procurement ought to be allocated to all beneficiaries.

NRG - NRG does not object to the expanded rationale for designating RMR (to address system and flexible capacity shortfalls). NRG *does* object to imposing a cost-based MOO on the RMR unit at times when there are no expected system or capacity shortfalls. The nature of the MOO should be consistent with the reason for the RMR designation.

PAO - PAO noted in previous comments that stakeholders have inquired what additional technical studies the ISO would perform prior to designating a resource as RMR based on system and/or flexible needs. The ISO should clarify the applicable reliability criteria it would use in such an assessment and what technical studies it would perform to determine whether the criteria are met.

PG&E - The ISO proposal seeks to clarify ISO tariff authority to make RMR designations for units that meet system and flexible (and not only local) needs. PG&E continues to respectfully disagree with this aspect of the ISO proposal. PG&E understands the use of RMR to be for resources without which the ISO cannot reliably operate the grid. Under the current use for local resources, the ISO has established a well-defined set of criteria and evaluation methodology to determine whether a specific resource is absolutely needed for reliable operation of the grid. However, the ISO has not established (or even proposed to establish) a similar set of reliability criteria for flexible or system services, nor a methodology to evaluate the absolute necessity of a specific resource providing those services without which reliability would be compromised. PG&E does not believe it is prudent for the ISO to have unfettered and unchecked discretion regarding capacity procurement that the CAISO is seeking with this request and opposes the expansion of ISO procurement authority. PG&E believes that, to the extent ISO goes ahead with the current Proposal and asserts its authority to issue an RMR for system and/or flex in order to retain a specific unit, it should further specify a different cost recovery mechanism for such an RMR award. PG&E believes the costs of system and flex generation procurement should properly be allocated to load, akin to CPM, and unlike the current RMR treatment, which allocates costs via transmission charges to all customers in the relevant PTO's TAC area. PG&E notes that there would be significant distortionary impacts among ISO market participants if large amounts of generation procurement costs are to be contracted directly by ISO and socialized to all customers via transmission charges.

SCE - SCE supports the ISO proposal.

SDG&E - SDG&E cannot support the ISO proposed use of RMR for system and flexible needs. Without further work explaining how a non-local unit can be an ERR for either a system or flexible need is not clear at this time. Only changes in RMR that are clearly needed and thoroughly explained should be pursued at this time. Finally, costs for system and flexible needs should not be allocated to customers as a transmission charge but treated as a procurement cost.

Six Cities – The Six Cities support this aspect of the ISO's proposal. All attributes of an RMR resource should be procured.

j. Allocate flexible Resource Adequacy credits from RMR designations

Calpine – Calpine supports an allocation of all attributes (flex, local or system) of backstop contracts to loads, based, in the first instance, on unmet requirements or purposeful short-positions and second, on actual load ratio shares.

CPUC – Staff continues to support the allocation of flexible RA capacity for RMR resources that have flexible capacity. Allocation of these resources will ensure that the benefits are not stranded.

IEP - IEP supports allocating Flexible RA credits associated with designated RMR units to LSEs benefiting from the flexible capacity. .

PAO - PAO supports the allocation of flexible RA credits from RMR designations as described in the Second Revised Straw Proposal and the clarification provided that an EFC value qualifies a resource to provide flexible RA attributes through an RMR agreement.

SCE - SCE supports the ISO proposal.

SDG&E - SDG&E supports the ISO proposal.

Six Cities – The Six Cities support this aspect of the ISO's proposal; all attributes of an RMR resource should be procured.

k. Streamline and automate RMR settlement process

Calpine – Calpine supports changes that would allow simplification and automation of invoicing and settlement. Shifting the burden of invoicing to the ISO, where it can leverage existing systems, data and processes has significant benefits. While Calpine sees significant advantage to the RSP proposals for Condition 2 units, careful consideration of Condition 1 contracts is required with respect to bid cost recovery. The current RMR is structured to settle hourly – that is, rather than BCR occurring over 24 hours, the current RMR applies BCR over only a single hour. This ensures that losses which may be imposed by operating an RMR resource uneconomically in one hour are not off-set by gains that may occur in another hour. Blind implementation of current BCR mechanisms to a Condition 1 unit would strip the owner of some of the market revenues that they were designed to retain. Calpine supports other components of simplification – such as the conversion of hourly availability to a fixed monthly payment if in fact, the ISO also decides to impose a modified RAAIM on RMRs. (Note: Calpine understands that the RSP asserts that the CAISO would never require an RMR owner to self-schedule thereby exposing it to possible RAAIM penalties.)

NCPA – NCPA supports streamlining this process.

NRG - No comment. NRG appreciates that the ISO clarifying that streamlining the RMR settlement process would not subject RMR units to market risks they would not otherwise have (such as the risk of being allocated a share of a market default.)

Six Cities – The Six Cities have no additional comments on this aspect of the ISO's proposal, subject to their comments provided elsewhere regarding substantive aspects of the ISO's proposal.

l. Lower banking costs associated with RMR invoicing

Calpine – Yes. Please.

CPM

m. Change CPM pricing formula for resources that file at FERC for a CPM price above the soft-offer cap price

Calpine – Calpine prefers the pricing formula of the first Revised Straw Proposal wherein bids would reflect the full cost of service, but energy rents are returned to the ISO. As we indicated in our August comments, the current proposal (GFFC plus 20 percent) is unlikely to allow the recovery of incremental capital (e.g. major maintenance) and therefore discourages participation in the CSP.

CPUC – ED Staff appreciates changing the CPM compensation above the soft offer cap to eliminate the full cost-of-service option. Staff supports this change, but remains concerned that the CPM price is too high for annual designations.

DMM - DMM supports the ISOs proposal to change CPM compensation above the soft offer cap to a structure based on GFFC instead of using Schedule F of the Pro Forma RMR contract. However, the ISO's proposal still does not address some key concerns.

<u>Cost filings above the soft offer cap</u> - While DMM supports changing cost recovery above the soft offer cap to a structure based on GFFC, the ISO may allow for excessive recovery if a supplier can file for its actual GFFC *plus* 20% and also retain all net market revenues.

The ISO reasons that the 20% adder is justified by prior FERC direction and is necessary to allow for some contribution to additional fixed costs. However, FERC's reasoning for rejecting the ISO's 2010 soft offer cap proposal ($55/kW-year, based on a reference unit's GFFC plus a 10% adder) was that the ISO had not *demonstrated* or *explained* how the proposed methodology would provide revenue sufficiency. FERC stated:

> …we find that CAISO has failed to demonstrate that the proposed long-term, fixed price CPM, which is based on a resource's going-forward costs plus a 10 percent adder, is just and reasonable compensation for the capacity procured to maintain reliable operations, and find that it may be unjust and unreasonable …..
>
> CAISO, in this filing, has not explained how the use of going-forward costs for CPM compensation will provide incentives or revenue sufficiency for resources to perform long-term maintenance or make improvements that may be necessary to satisfy new environmental requirements or address reliability needs associated with renewable resource integration

In its 2015 filing establishing the current soft offer cap, the ISO reasoned that $75.68/kW-year addressed the Commission's initial concerns as it included a 20% adder to a proxy resource's GFFC which could account for additional fixed costs. The ISO stated:

> Using a 20 percent adder, rather than a lower adder, will address these concerns and allow additional fixed cost recovery consistent with the CPM Order...The adder will allow return on and of capital to allow recovery of additional fixed costs. For example, the adder facilitates the costs of incremental upgrades, including upgrades to enhance flexibility and make resources more efficient, upgrades to satisfy environmental requirements, upgrades to address reliability associated with renewable integrations, and other plant modernization upgrades.

FERC accepted the ISO's justification in its 2015 Order:

> In addition, we find that CAISO's proposal to implement a soft offer cap of $6.31/kW-month ($75.68/kW-year), plus a 20 percent adder should allow sufficient recovery of fixed costs plus return

> on capital to facilitate incremental upgrades and improvements by resources. Further, because the soft offer cap represents the high end of the range of current resource adequacy prices, it should not create incentives for load-serving entities to forego bilateral resource adequacy contracts and, instead, rely on CPM backstop procurement…

Based on these filings, DMM does not believe that an adder less than 20% is inconsistent with prior FERC orders and guidance. The ISO never demonstrated that a lower adder was sufficient to contribute to any additional fixed costs or plant upgrades. Additionally, DMM reads FERC's ruling to apply to the soft offer cap, not necessarily resource-specific cost filings above the soft offer cap.

DMM recommends that instead of assigning an arbitrary percentage adder to GFFC, the ISO could require suppliers seeking compensation above the soft offer cap to explicitly file for actual costs associated with long term maintenance or environmental upgrades. Moreover, net market revenues also provide a return to suppliers. If the CPM process was competitive, suppliers would be expected to bid up to GFFC *net* of projected market revenues. Instead, the ISO will allow suppliers to recover full GFFC *plus* 20% and also retain net market revenues. This may represent excessive compensation for unit with locational market power.

<u>Soft offer cap for annual CPMs</u> - The ISO's proposal does not address concerns that the soft offer cap for annual CPMs may be too high. The ISO justified the current soft cap approach in its 2015 filing under the premise that CPM would be *rarely used* and would typically be used for *shorter periods*, so was a simpler approach:

> The approach adopted in the Offer of Settlement recognizes that the CAISO rarely uses CPM and that, under such circumstances, a simpler approach that avoids complex market power mitigation measures and avoids litigation is a more prudent and reasonable approach….
>
> This will promote efficiency and eliminate burdens associated with developing and establishing proceedings to set prices for individual resources in connection with a mechanism that is rarely used and, when used, typically only results in designations for short periods.

The ISO issued annual CPMs to three resources for 2018. The ISO has also expressed concern that the CPUC's *Proposed Decision Refining the RA Program* proceeding could result in increased reliance on ISO backstop procurement. Thus, DMM believes it is important and timely for the ISO to reassess its soft offer cap for annual CPMs. The current soft offer cap was justified under the assumption that use of CPM would be infrequent, and even less frequent for annual CPMs. There is evidence and concern that these assumptions may no longer hold.

<u>Competitiveness of CPM solicitations</u>**-** Stakeholders have raised concerns that CPM solicitations, particularly annual CPM solicitations, are not competitive as resources have cleared at or close to the soft offer cap. A lack of competition – coupled with a soft offer cap that is too high for annual CPMs – raises concern that the CPM soft offer cap for annual CPMs is not an effective form of market power mitigation. DMM encourages the ISO to reassess its soft offer cap for annual CPMs, or alternatively, consider suggestions to apply a market power test to CPM solicitations. While the ISO states it will not address changes to the CPM pricing structure in its current initiative, the ISO commits to reassessing the soft offer cap in a separate stakeholder process in 2019. Given the important and controversial nature of this issue, DMM encourages the ISO not to delay working on this effort with stakeholders and to keep stakeholders actively engaged by holding working groups to discuss potential cost studies and alternative pricing frameworks for annual CPM designations.

IEP - IEP does not support changing the CPM pricing formula filed at FERC at this time. As noted above in the context of RMR, as a general principle, CPM is to be employed as “backstop” to deficient RA procurement by LSE’s (individually and collectively). Under the current California market structure that depends on forward, bilaterally contracting to ensure adequate capacity is installed and available (versus, for example, a centralized capacity market), then the ISO’s backstop procurement mechanisms (RMR and CPM) must send strong market signals to incent forward, LSE procurement in a timely manner. Retaining the existing soft-offer cap price is key to incenting forward LSE RA procurement to meet their full RA obligations and, thereby, mitigating the need to lean on the ISO for backstop procurement.

NCPA – NCPA does not believe 20% adder that is being proposed has been fully justified.

PAO – PAO opposes adding a 20% cost adder to the GFFC to calculate the above-soft offer cap price for CPM resources. The ISO proposes a 20% cost adder because that is the same adder applied to the CPM reference resource to create the soft-offer cap. The soft-offer cap is intended to be a benchmark for a reference unit to establish average costs of capacity plus 20%. The ISO has stated that the 20% adder allows “for resources with costs higher than the mid-cost case to recover their fixed costs” and act as a margin of error of the average cost of a combined cycle unit.” The 20% adder in the soft offer cap is designed to allow resources with higher GFFC to recover their GFFC only, and not to provide a premium on top of GFFC. In addition, suppliers are allowed to go to FERC to cost-justify offers above the soft offer cap. A CPM pricing formula which allows for a 20% adder to GFFC and allows that CPM resource to keep all market rents earned, is both unreasonable and inconsistent with the purpose of the CPM soft-offer price cap. Under the current CPM pricing structure, a resource that has GFFC equivalent to the soft-offer cap can only receive CPM compensation at the soft-offer cap of $75.68/kW-year. Under the ISO’s proposal here, that same resource would receive CPM compensation at $75.68/kW-year plus 20%, or $90.82/kW-year, effectively raising the CPM price and imposing additional unnecessary costs on ratepayers while overcompensating generators.

PG&E - Generally, PG&E agrees with the ISO’s direction to retain CPM as a separate form of backstop procurement from RMR, with separate compensation principles, so long as the distinction is preserved in the use of the two instruments. Where the same unit can “test the waters” and pursue an RMR designation, by refusing a voluntary CPM award and then threatening to mothball or retire (without committing definitively to do anything irreversible), this distinction breaks down. Therefore, PG&E believes the CPM compensation should be tailored in such a way as to minimize the discretion afforded to generation owners with locational (or other) market power, and dampen the incentive for the owner of a needed unit that has some degree of market power to navigate the process towards the most attractive compensation. Unlike RMR, which the ISO has stated should only be used for needed units at risk of retirement, the CPM compensation is available for a unit that is – absent further evidence -- still economically viable and may continue to participate in the ISO market with or without a backstop award (that is, regardless of any such award, it will continue to be available to the ISO through exceptional dispatch, up to any limits on the physical capability of the plant). The CPM is for a unit that has not been procured bilaterally for a given period of time but is determined by the ISO to be the most economical way to meet a specific deficiency in the RA portfolio. In order to provide appropriate economic incentives and avoid “front-running” of the bilateral market, the CPM compensation requires that there be some degree of competition and uncertainty as to whether the individual unit owner will receive the award for a given period. Where there are multiple units that can provide the same needed service, the CPM award can be made on a competitive basis via the CSP spelled out in the ISO tariff. The concern with compensation therefore arises for those units that have some degree of market power, due to insufficient competition, and where the unit owner therefore has the ability to seek its best and highest compensation up to the

soft-offer cap (or else, by declaring a mothball or retirement and receiving cost-of-service compensation under an RMR). PG&E believes the soft-offer cap is an appropriate upper bound on compensation for shorter duration CPM awards, as any short-term gains are unlikely to weigh significantly in long-term decisions for the unit owner (i.e. with respect to bilateral RA market participation or a binding retirement or mothball of the unit), but the cap should not be the default compensation for annual CPM designations and any market revenues should be credited against the cost of the resource. For units with locational market power to receive annual CPM designations, the unit owner should be allowed to seek compensation up to the cost of service rate (that is, Schedule F of the RMR) with a credit back of any net market revenues. Resources that have going forward costs that are less than their cost of service should be allowed to compete with other resources, when they do not have market power, for an annual CPM designation with a credit back of any net market revenues. This aligns incentives and reduces the potential attractiveness of withholding or “front running” the bilateral market (in hopes of getting a more lucrative award via CPM).

SCE - The ISO has not demonstrated that the FERC considers GFFC+20%+market rents as necessary to compensate the resource’s market cost of capital. The ISO’s proposal to allow a resource to keep market rents, is based on an assumption, not a certainty, that the FERC will not accept any other proposal. SCE believes that FERC adopted the present 20% adder under the presumption that the resource would be receiving the reference resource revenue under the bid cap which may or may not represent a sufficient contribution to the resource’s capital. To accommodate this, the ISO also allowed the retention of market rents as another source of contribution to capital. In this case, where the resource is receiving compensation above the soft-offer price cap, there is no doubt that the 20% adder is contributing to capital. With that uncertainty removed, it is not clear that the retention of market rents in total is appropriate. SCE believes that prior FERC guidance on this issue as expressed by the ISO may not be indicative of the current set of circumstances.

SDG&E - SDG&E opposes the ISO proposed CPM payment method. It could result in a potential windfall for generators with average or below average costs. Generators with above average costs needed for reliability should receive full COS compensation. The ISO’s proposed simplified approach is bad and counterproductive for cost savings and reliability. The ISO’s proposed solution does not resolve a major gap in annual CPM designations that the proposed solution creates. In response to opposition for a generator getting two different possible payments for providing the same thing (annual capacity through RMR vs CPM) the ISO eliminated the overlap. RMR will only be for risk of retirement and CPM would be used for an annual collective deficiency. By eliminating the overlap, the ISO’s proposal fails to recognize that CPM is voluntary: a collective annual deficiency could result when the CPM is not accepted. Relying on exceptional dispatch (perhaps often) could impact reliability (the unit may be on outage which is more likely without a MOO). The appropriate payment for an ERR is not occasional exceptional dispatch revenue and GFFC +20% is too high when the unit’s full cost of service is lower. The most appropriate payment for an ERR is its full cost of service (offset by all market revenues) whether above or below GFFC +20%. The ISO proposal will let units self-select paths to either RMR or CPM that provides them the highest compensation with no increase in reliability.

Six Cities – The Six Cities recommend a further change to the ISO’s proposal to revise the pricing formula for resources that file at FERC for a price above the CPM soft offer cap. Limiting such resources to their going forward fixed costs plus a 20% adder is reasonable, notwithstanding the voluntary nature of CPM participation. However, the Six Cities request that the ISO revise its proposal to provide that such resources are not entitled to retain market revenues in addition to recovery of their going forward fixed costs plus the adder, which would appear to result in the recovery of excessive revenues.

n. Evaluate if load serving entities are using CPM for their primary capacity procurement

Calpine – Calpine understands that several LSEs in the San Diego load pocket sought waivers of the local requirements, and that ultimately CPM was used to acquire capacity. We agree with the ISO that these events do not constitute a cause for opening the CPM settlement or pricing conditions.

IEP - The evidence of LSEs leaning on the CPM mechanism will be the extent to which the ISO must employ CPM procurement to fill deficiencies in LSE forward RA procurement.

NRG - NRG does not object to the CAISO dropping this from the scope of the initiative.

Six Cities – The CAISO's proposed resolution of this issue appears to be reasonable.

Other Comments

IEP - The FERC has put the ISO (and, by extension, the CPUC) on notice that a "holistic" solution must be developed to address capacity needs in California. IEP believes that the ISO's tariff filings when filed will be reviewed by the FERC through the prism of CPUC decision-making with regards to its RA program. As a practical matter, the ISO's RMR and CPM Enhancements and the CPUCs RA Refinements must align or else problems will emerge, and stakeholder will remain in a "do-loop" of never-ending RA/RMR/CPM policy refinements and enhancements. The CPUC's RA Track 2 decision is expected to address matters fundamental to the ISO RMR and CPM Enhancement initiative, including (a) defining a multi-year RA Framework (for system, local, and flexible RA capacity) and (b) implementation of a central procurement entity ("CPE") to procure needed RA capacity. If the CPUC's RA program fails to incent timely LSE-forward-procurement (or, alternatively, forward CPE procurement) to lessen the risk of the ISO CPM/RMR backstop procurement, then broader enhancements in the CPM/RMR programs perhaps are warranted. Given the relatively broad opposition to key parts of the RA Track 2 Proposed Decision, IEP believes that there is a high likelihood that the matter may be pulled from the Commission's January 10, 2019 business meeting agenda for further consideration. At a minimum, the ISO needs to build into its RMR/CPM Enhancement schedule time for stakeholders to reflect on the RA Track 2 Decision once rendered, because that decision likely will inform stakeholder's consideration of the ISO's RMR and CPM Enhancements. We suggest a 3-6 month delay in order to accommodate the CPUC RA decision-making.

NCPA – NCPA is concerned with the underlying assumptions associated with the use of the term central buyer in section 7.1.2. As the ISO notes, that concept is still under development at the CPUC. Further, it is a controversial subject and a role that no entities, including IOUs and the ISO, have the desire or ability fill by 2020. NCPA would also like to emphasize that numerous LSEs, such as NCPA and its members, are subject to the jurisdiction of their individual LRAs and not the CPUC with regard to RA procurement. Even in the event that a Central Buyer is established, NCPA and its members will most likely not rely on that entity to procure local (or system or flexible) resource adequacy on its behalf. Finally, Figure 3 – the RMR Notice and RA Process Timeline states "ISO publishes results of retirement/mothball study, and provides this info to central buyer". NCPA strongly believes that this information should be distributed to all applicable LRAs, not just a central buyer, because there will still be LSEs procuring local (and other) RA on their own behalf.

NRG - NRG closes by reiterating two paragraphs from FERC's April 12, 2018 order on the CPM Risk-Of-Retirement amendment, ER18-641 (California Independent System Operator Corporation, 163 FERC 61,023 (2018) (NRG's emphasis):

> 47. We recognize CAISO's statement that "risk of retirement of resources needed for reliability remains a significant concern… as the number of resources subject to the [renewable portfolio standard] increase, market prices decrease, and the revenues necessary to cover the fixed costs of existing generation resources decline."52 However, the issue of front-running the resource adequacy program is inextricably linked to issues of risk of retirement CPM compensation, the RMR program, and resource adequacy procurement in CAISO in general. The interrelated nature of these issues demonstrates the importance of CAISO's efforts in this area and the need to evaluate the fundamental reliability and market factors associated with resource adequacy as a whole.

> 48. Given the importance of these issues, we strongly encourage CAISO and stakeholders to make progress in the ongoing stakeholder process and to adopt a holistic, rather than piecemeal, approach. We believe that this should include: (1) revisiting the issue of the adequacy of CPM and RMR compensation; (2) evaluating whether both risk of retirement CPM and RMR need to be retained as separate backstop mechanisms; (3) examining the timeline and eligibility requirements for issuing risk of retirement CPM designations and how those factors may impact bilateral resource adequacy procurement; and (4) evaluating measures that would trigger the review of its backstop procurement if it appears to be overused.

The CAISO can best ensure that it is addressing these interrelated issues in a "holistic" fashion by synching up the CPM-RMR process with the RA Enhancements process.

PAO - In the stakeholder meeting, the ISO stated that it may not produce a study identifying ERRs because the PD in the CPUC RA proceeding states that the Commission finds it unnecessary to adopt the study at this time. The PD states that the "existing LCRTS [Local Capacity Reliability Technical Study] identifies essential resources (with effectiveness factors) that can meet capacity needs in local and sub-local areas. While the LCRTS does identify the effectiveness of resources in meeting local or sub-area reliability needs, based on the contingencies in an area, the study can also state that "effectiveness factors may not be the best indicator towards informed procurement." For areas where the ISO states that effectiveness factors may not be the best indicator towards informed procurement, it is not clear what resources should be procured, especially on a multi-year basis. To avoid the need for backstop procurement, the ISO should provide more information on which resources are essential for reliability in a clear, transparent, and timely manner. The RA PD recognizes the need for this information by concluding that the "central buyers should use the ISO's ERR study or a similar methodology to guide local procurement, in collaboration with the ISO and Energy Division staff, so as to avoid potential backstop procurement." Additionally, this information is necessary to inform the development of alternatives through the CPUC's IRP proceeding. The ISO should move forward with producing an ERR study.

PG&E - While progress has been made in some areas of the proposal, overall, PG&E is concerned that core elements remain unchanged from previous versions despite serious flaws which will undermine the intent of reforming backstop procurement and providing a "holistic" process for generation at risk of early economic retirement. In FERC's order rejecting the ISO's risk of retirement tariff revisions, it expressed concerns that resources needed for reliability "would likely offer, in the bilateral resource adequacy market, no less than the payment [the resource] expected to receive" from the ISO's backstop procurement process. The ISO's proposal does not address the ability of resources to self-select designations based upon the procurement mechanism that provides the highest compensation and which therefore are likely to exceed what the resource could earn in a competitive market. A more comprehensive package of reforms is needed to avoid significant negative impacts on the competitiveness of procurement under California's RA program. As an example, PG&E has commented since the beginning of this initiative on the loopholes that allow a generation resource owner to declare an "intent" to retire a unit in order to be studied for a possible RMR, only to then rescind or otherwise alter that stated intent when either the unit is found not to be needed for reliability (and therefore is ineligible for an RMR designation), or otherwise receives a better price offer through a bilateral or CPM route. This fundamental flaw in the backstop procurement design still exists in the form of the mothball request, which is non-binding and easily rescinded or reversed by the generator, as discussed further below. PG&E provides the following specific comments regarding individual elements of the Proposal, but reiterates the overall concern that the proposal, as crafted, does not meet the objective of providing a

"holistic" process and will do little to avoid additional costly backstop procurement in the future, while also distorting and perverting the incentives for cost-effective compensation for units with locational (or other) market power.

SDG&E - SDG&E is not convinced that any units have market power for system RA or flexible RA needs and would become an ERR and needing an RMR contract. SDG&E opposes a framework that lowers overall reliability for a known annual reliability problem (such as a collective deficiency) just because an ERR does not participate in the CSP and rejects a CPM award (see comments in "m"). SDG&E supports a payment framework that recognizes ERRs have market power and that has the same result regardless of the path taken (RMR or CPM) probably based on full cost of service less net market revenues. Anything else will probably have major problems gaining approval at FERC.

Six Cities – The Six Cities urge the ISO to more fully consider and address the concern identified by SCE in this initiative related to the potential exercise of market power by resources potentially subject to an annual CPM. Consistent with SCE's comments, it would be advisable to test for market power before awarding an annual CPM to a resource.

WPTF - WPTF supports the ISO's direction to better differentiate between the CPM and RMR designations and believes the ISO has done a good job clarifying the difference. However, WPTF believes this proposal does not represent the holistic review of RMR/CPM the ISO committed to conducting at FERC.