Independent Energy Producers Assoc. Comments

Capacity Procurement Mechanism Soft-Offer Cap

Submitted by	Organization	Date Submitted
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Please provide your organization's comments on the following issues and questions.

1. Updating the soft offer cap

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

IEP supports re-visiting the resource type(s) that best reflect the system marginal capacity cost. However, we do not believe that the system marginal capacity resource is presented in the findings of the CEC Staff Report, "Estimated Cost of New Utility-Scale Generation in California: 2018 Update" (Staff Report, May 2019). The CEC Staff Report summarizes "cost trends for utility-scale power plants that may be built in California over the next decade, including solar, wind, geothermal, biomass, and natural gas-fired technologies."

As a practical matter, the resources presented in the CEC Staff Report do not represent the capacity built over the past five years, except for wind and solar. Little, if any, new geothermal, biomass (except that which has emerged through various feed-in tariffs targeted to relatively small biomass units), and natural gas-fired resource has been procured and developed since 2015. Moreover, little evidence exists today that the load-serving entities will be adding these new technologies to the system over the next five years.

In evaluating the true cost of the marginal system capacity resource for purposes of establishing the CPM soft-offer-cap, the CAISO must evaluate the full cost of the marginal resources added to the system recently and likely to be added to the system over the next five years. Certainly, this resource is not likely to be a 700 MW combined cycle natural gas-fired resource. Indeed, it may be the case that no natural gas-fired resource will be added to the California grid over the next five years.

The CAISO should commission an independent study to assess the full cost of the marginal system capacity resource(s) in California today. To accomplish this, the CAISO must assess the full costs associated with new resources that derive from various feed-in tariffs (e.g. BioRAM, BioMat) as well as the full costs associated with proposed new large hydro, new "preferred resources" including distributed energy resources (DERs), utility-

scale storage, energy efficiency, demand-response, and behind-the-meter solar/storage that provide capacity in the California markets and/or "count" as capacity in long-term planning (IRP, transmission, RPS, etc.).

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

As noted above, the CEC Staff Report is insufficient for evaluating the true system marginal capacity cost. Rather than rely on the CEC Staff Report, the CAISO should commission an independent study assessing the full capacity costs of adding new, marginal capacity to the system. This study needs to be conducted by an independent, non-market participant because much of the data needed to determine the true cost of marginal system capacity is treated as confidential at the California Public Utilities Commission (CPUC).

2. Assessing payment for 12-month CPM designations

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

The CAISO Issue Paper highlights concerns raised by some that resources could exert market power over CPM capacity payments and, therefore, the CAISO should employ the "3 pivotal supplier" test to all resources submitting bids to the CAISO under the CPM Mechanism. IEP views the concern over market power as a diversion from the fundamental flaws of the current California resource adequacy market design. The real problem is a scarcity of resources; and, the scarcity of resources a function of inadequate and untimely LSE procurement practices in California.

As background, California's preferred market design currently is a bilateral-contracting framework in which load-serving entities (LSEs) have an obligation to procure a specified amount of resource adequacy (Local, System, Flex). Following a "cure period" in which LSEs may supplement their procurement to fill any deficiencies in their RA "showing," the CAISO has the authority to procure to eliminate individual LSE deficiency(s) in RA procurement. In addition, the CAISO has the authority to procure resources to eliminate collective RA deficiencies in the situation wherein all LSEs are shown to be sufficient in RA procurement, yet insufficient capacity exists to ensure grid reliability. In this context, the CAISO's CPM Mechanism is "backstop" to critical LSE procurement practice. Participation in the CPM competitive solicitation process is voluntary for individual resources. Resource selection is competitive (i.e. bid-based) up to a "soft-offer-cap." Resources that seek compensation above the soft-offer cap must seek cost-based recovery at the FERC.

New capacity (and the retention of existing needed capacity) is driven primarily (if not totally) by LSE procurement practices including bilateral contracting with individual resources. Indeed, in the context of the existing California bilateral-contracting market model, new "merchant" capacity investment is rare absent a power purchase agreement (PPA) or a feed-in tariff. Yet, LSE procurement activity has fallen well short of that which

is needed to ensure the availability of needed capacity to prepare the grid for the demands of SB 350 implementation let along replace the 9,000-11,000 MWs of scheduled to retire over the next few years (e.g. once-thru-cooling units, Diablo Canyon Nuclear Generating Station).

To the extent that local and/or regional markets are getting "tight," the phenomenon is the result of resource scarcity driven by inadequate LSE procurement. Thus, it is ironic that the entities that are creating the problem of resource scarcity through inadequate procurement (i.e. the LSEs) seek to undermine the very price signals that might compel timely and needed procurement by either lowering the soft-offer cap, thereby incenting more CAISO CPM backstop procurement, or, alternatively, making the CAISO's CPM soft-offer cap mechanism inconsequential due to the application of the 3 pivotal supplier test.

Rather than engage in the litigious debate regarding the applicability of a 3 pivotal supplier test in the context of the backstop CPM mechanism, the CAISO should simply set the CPM soft-offer-cap at a level that truly reflects market scarcity, i.e. at a level that is no less than (and perhaps slightly above) the full cost of the marginal capacity resource(s) expected to be added to the system over the next five years or more including necessary capital additions. Ensuring that the soft-offer reflects true scarcity in the CA markets will re-establish the principle that the CPM is a backstop mechanism designed to incent forward, bilateral procurement and reduce the risk that LSEs "lean-on" the CAISO for procurement. To the extent that there are essential resources needed to provide needed capacity for which no alternatives exist, then the CAISO has adequate tools to address these contingencies (e.g. RMR).

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

3. CPM bids above the soft-offer cap

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

The soft-offer cap must be set at a level that creates incentives for LSEs to engage in timely forward procurement rather than setting incentives to lean on the CAISO's backstop procurement mechanism. The soft-offer-cap should be set to reflect true scarcity in the market, i.e. at no less than the full capacity cost (including capital additions) of the marginal system resource expected to be procured over the next 5 years (see

comments in Response to Question 1 above). When set appropriately, resource bids typically will fall within the soft-offer cap rather than above the soft-offer cap.

For resources whose costs exceed the soft-offer-cap and which the CAISO has identified as needed to ensure grid reliability, these units can (a) seek FERC approval of costs exceeding the soft-offer cap (consistent with the CAISO tariff) or, alternatively, the CAISO may identify these resources as essential reliability resources needed to ensure resource adequacy/grid reliability and enter into an RMR contract to mitigate risk-of-retirement and/or the actual exercise of market power. (see comments in Response to Question 2 above).

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

Additional comments

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