California ISO

Stakeholder Comments Template

Capacity Procurement Mechanism Soft Offer Cap

This template has been created for submission of stakeholder comments on Capacity Procurement Mechanism (CPM) Soft Offer Cap that was published on July 24, 2019*.* The straw proposal, stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismSoft-OfferCap.aspx

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on August 20, 2019.

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

1. **Maintain the CPM soft offer cap**

Please provide your organization's feedback on this topic as described in section 5.1 of the straw proposal. Please explain your rationale and include examples if applicable.

The CAISO has proposed to not lower the Soft-Offer Cap (SOC) based on the very modest difference between the going-forward costs of the reference unit used to set the current $75.68/kW-year price (a 550 MW CCGT) and the $70.68/kW-year going-forward costs of a 700 MW CCGT from the CEC's most recent cost of generation study.

NRG does not object to this proposal to retain the status quo SOC at this time. The CAISO's proposal to leave the SOC at its current level notwithstanding, it is all but certain that the proposed reference unit (a 700 MW CCGT) does not reflect the kind of generating resource that is most likely to be added to California's resource mix to address both system and local area capacity needs in the future. Consequently, a 700 MW CCGT is a highly questionable benchmark to be used to set the SOC.

As the CAISO notes on page 7 of the July 24, 2019 Straw Proposal, it is unlikely that a 700 MW CCGT will be built in California in the future. This reality aside, such a duration-unlimited, dispatchable resource would easily qualify to meet both system and local area RA requirements. Conversely, a four-hour duration battery could qualify to provide system RA capacity, but may prove inadequate to meet local area needs, as was demonstrated in the CAISO's 2017 analysis of Moorpark local area requirements. Given the substantial likelihood that local area, not system, needs will give rise to a CPM designation, if the CPM SOC is to reflect the most likely kind of generating capacity that can dependably meet more than just generic system needs, the CAISO should adopt as the next reference resource a battery storage installation of greater than four hours' duration.

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.

2. Changes to 12-month CPM designations

Please provide your organization's feedback on this topic as described in 5.3 of the straw proposal. Please explain your rationale and include examples if applicable.

The CAISO has proposed to conduct a three-pivotal supplier ("3PS") test for 12-month CPM designations and to offer a full-unit RMR contract, not a CPM designation, to needed units that fail the 3PS test.

NRG has several concerns about this proposal.

First, the CAISO indicates that, while the CAISO will offer a full-unit cost-of-service RMR designation to needed resources, it will not offer full-unit cost-of-service contracts if the need is small relative to the size of the unit.[1] NRG strongly disagrees with this approach. The CAISO should neither exercise monopsonistic market power, nor shirk its fundamental obligation to maintain reliability, by failing to provide a cost-of-service designation to a needed unit whose size may be large relative to the need.

Second, the portfolios of net buyers should not be considered as potentially pivotal in any three pivotal supplier analyses conducted. Capacity costs are pass-throughs to the ratepayers of net buyers, and net buyers therefore have no incentive to raise capacity prices.

Third, while providing a cost-of-service designation to a unit that fails a pivotal supplier test due to *ownership concentration* may be the only acceptable approach, if a unit fails a pivotal supplier analysis because of *scarcity conditions*, the appropriate payment to such a scarce resource would be the net Cost of New Entry ("CONE").

[1] Straw Proposal at page 15 ("The ISO will only make designations for a full cost of service CPM if the ISO requires at least a substantial portion of the resource to reliably operate the grid. For example, the ISO would not extend a 150 MW cost of service CPM designation for a 10 MW need.")

Once again, the CONE price should reflect the type of resource that has the characteristics that are required and is most likely to be used to address the deficiency, which, in California, is most likely to be battery energy storage. In local areas – in which it is most likely that a resource would fail the 3PS test – the duration of battery energy storage used to set CONEshould be of sufficient duration to address the local area need.

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 straw proposal for the CPM Soft Offer Cap initiative.