Office of Ratepayer Advocates Comments

Submitted by	Company	Date Submitted
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The Office of Ratepayer Advocates (ORA) provides the following responses to the California Independent System Operator's (CAISO's) questions in this template regarding the *Review of Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM) Draft Final Proposal for Phase 1 Items and Items under Consideration for Phase 2*, dated March 13, 2018 (Draft Final Proposal).

1. Comments on phase 1 draft final proposal to make RMR units subject to a must-offer obligation.

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments:

ORA supports adding a must-offer obligation (MOO) to future RMR contracts but has concerns with the proposed language regarding energy bid calculations.

The Draft Final Proposal states that cost-based bids of Condition 2 RMR units can include major maintenance adders (MMA).[1] The energy bids of market resources include commitment costs which sometimes include MMAs which increase energy bid prices in order to recover certain maintenance costs. In the case of an RMR resource however, capital item cost recovery may include major maintenance items in Schedule L-1 of the RMR contract, independent of energy bid price calculations.[2] It is unclear why an MMA would be necessary

[1] Draft Final Proposal, p. 17 and Footnotes 9 and 10.

[2] Schedule L-1 is used to request cost recovery of Capital Items and Unplanned Repairs that would not have been included in the calculation of Annual Fixed Recovery Rate. Those costs are recovered in the Monthly Option Payment, not a bid adder. See CAISO Tariff Appendix G, p. 129. Also, the recent Metcalf RMR agreement included a number of Capital Items which were specifically for the purpose of maintenance. See FERC Docket ER18-240

for additional cost recovery for RMR agreements. It is unclear how MMAs are related to the dispatch of an RMR resource and why they should be included in the calculation of RMR energy bids when Schedule L-1 may cover maintenance costs. Inclusion of MMAs would increase the bid price of the unit and could decrease how often it is dispatched on the market. Less competitive prices from RMR units may lead to a higher price of energy in the market and/or dispatch of more costly resources as alternate energy bids are selected by the CAISO market processes. MMAs should not be included in the energy bid price, and should be removed from the Draft Final Proposal.

If CAISO instead chooses to keep MMAs in the Final Proposal, a description of RMR-specific MMAs is required. There appears to be no provision in the *pro forma* RMR agreement specifying MMA treatment. If MMAs are not removed from calculation of energy bids in this proposal, CAISO should define "major maintenance adder" in the Final Proposal to ensure that MMAs are distinct from Capital Items, as described in the *pro forma* RMR agreement, to prevent duplicative cost recovery through Schedule L-1. The definition should include justification for the inclusion of MMAs if MMAs are to be used in cost-based energy bid calculations.

2. <u>Comments on phase 1 draft final proposal for ISO to provide notification to stakeholders that a resource is planning to retire.</u>

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments:

ORA supports the amendment to the Draft Final Proposal that requires CAISO to notify stakeholders when a resource owner indicates that its resource may retire.[3] This proposal is consistent with ORA's recommendations to increase transparency to facilitate informed procurement and ratemaking decisions for resource adequacy (RA).[4] In the March 20th stakeholder meeting, CAISO stated that it had already received some notices from resource

Accession number 20171102-5246 "Metcalf Attach A- Part II" p. L-1-1 to L-1-5. Appendix G is available at: http://www.caiso.com/Documents/AppendixG_ProFormaReliabilityMustRunContract_asof_Apr1_2017.pdf
The FERC Docket is available at: https://elibrary.ferc.gov/idmws/docket_sheet.asp?docket=ER18-240&Subdocket=000

[3] Id., p. 18.

[4] ORA Comments on Review of RMR and CPM – Issue Paper and Straw Proposal for Phase 1 Items, February, 20, 2018, p. 6.

owners seeking analysis to determine if their resources could retire. ORA requests that CAISO provide those communications to stakeholders as soon as possible.

CAISO clarified that it intends to notify stakeholders when the resource owner states that it is considering mothballing the resource or making the resource otherwise unavailable to CAISO.[5] In other words, notification would not be limited to situations when the resource owner mentions retirement. ORA requests that CAISO include this clarification in its written proposal.

CAISO proposes to notify stakeholders through a market participant communication when it receives a notice from a resource owner about a potential retirement.[6] It is not clear if CAISO intends to provide the information through market notices, which are available to all interested stakeholders, or through another process only available to market participants. ORA requests that CAISO provide the information through market notices to inform all interested stakeholders who may not necessarily participate in the market, such as ORA.

CAISO states that it "will not post the actual owner's notification letter, but will summarize the key information from the notice such as the date received, affected unit and requested retirement date."[7] It is not clear why CAISO is not proposing to provide the actual notice. A representative from NRG has stated that they have submitted notices to the CAISO and that the notices are not confidential.[8] ORA requests that CAISO modify its proposal to also include the actual owner's notification letter.

3. Comments on potential phase 2 items.

Section 8 of the March 13, 2018 paper discusses the items that may be candidates for phase 2 of this initiative. It includes items suggested by both the ISO and stakeholders. The ISO requests that stakeholders comment on the priorities for these potential phase 2 items.

Comments:

A. RMR and CPM Issues

i. ORA Does Not Support Expansion of Authority to Backstop to Integrate Renewables

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[5] March 20, 2018, CAISO Stakeholder Meeting.

[6] Draft Final Proposal, p. 18.

[7] Id.

[8] March 20, 2018, CAISO Stakeholder Meeting.

CAISO proposes to expand its tariff authority to designate RMR and CPM resources based on "integration of renewable resources in order to reliably operate the grid."[9] This proposal is overly broad and unnecessary. Stating that a resource could be designated for RMR and CPM to integrate renewables is too vague to justify backstop procurement. Backstop procurement should be based on clearly defined reliability standards and numerical criteria, not a general statement that a resource is needed to integrate renewables.

Additionally, current RA requirements and the integrated resource planning (IRP) process are already designed to address renewable integration. The California Public Utilities Commission (CPUC) adopts flexible RA requirements annually based on CAISO's Flexible Capacity Needs Assessment to address net-load ramps caused by increased renewables penetration. The CPUC has also created an IRP process to "(i)dentify a diverse and balanced portfolio of resources needed to ensure a reliable electricity supply that provides optimal integration of renewable energy in a cost-effective manner."[10] Given current available mechanisms to integrate renewables, the proposal to expand CAISO's authority for backstop procurement to address the same issue is unnecessary and should be removed.

ii. ORA Supports Consideration of Alternative Resources

ORA previously expressed concerns that the current RMR process leaves no time for consideration of alternative solutions and instead provides generators with information about their market position.[11] Other parties expressed similar concerns that the current process for CAISO's backstop mechanisms does not facilitate review of alternative market or transmission solutions.[12] The inability to develop alternative solutions can increase ratepayer costs and exacerbate local market power issues. ORA continues to recommend review of the current process for backstop procurement to provide an opportunity to consider alternative solutions before backstop procurement.

iii. ORA Supports Consideration of Payment and Penalty Issues

ORA supports investigation of both RMR and CPM processes to ensure bilateral market agreements remain the preferred and primary platform for capacity procurement so that CPM and RMR designations are used sparingly. The RA program was designed to facilitate capacity

[9] Draft Final Proposal, p. 20.

[10] CPUC Decision (D.) 18-02018, pp. 10-11. Public Utilities Code Section 454.51.

[11] ORA Comments on Review of RMR and CPM – Issue Paper and Straw Proposal for Phase 1 Items, February, 20, 2018, p. 7.

[12] Draft Final Proposal citing CLECA, CPUC Staff, DMM, PG&E, pp. 41, 43, 45, and 47-48.

procurement through competitive solicitations and enable LSEs to meet their reliability requirements through self-owned and contracted resources at a reasonable cost for ratepayers. Increased use of RMR and CPM could negatively impact competitive RA solicitations and result in higher costs for ratepayers.[13]

The March 20th CAISO presentation included a brief discussion concerning possible unintended incentives which may make CPM or RMR preferable for generators as opposed to typical RA market agreements. Outage penalty structures and other forms of penalties and compensation reviewed in this initiative could potentially lead to increased RMR and CPM designations if they offer generators more revenue for capacity and more lenient requirements compared to the RA market.

ORA also supports continued refinement of CPM Risk-of-Retirement and RMR processes to ensure market participants do not choose between the two to obtain financial incentives which may increase ratepayer costs. To accomplish this, the review should consider whether RMR cost recovery should include a resource's sunk capital costs ("full fixed cost of service"), as proposed in the comments of the Department of Market Monitoring (DMM).[14] ORA agrees with DMM's conclusion that compensation should not include a resource's full sunk capital costs less depreciation.[15] An investigation of this issue should include the review of RMR cost of service recommended by the CPUC Staff in its prior comments.[16]

B. RMR Issues

i. ORA Supports Allocation of Flexible RA value for RMR resources

CAISO has added consideration of allocation of Flexible RA credits from RMR designations into the scope of phase 2.[17] ORA agrees with CPUC Staff's comments that "(s)ince ratepayers are paying for all of the costs associated with the operation and dispatch of these resources, they should be allocated the flexible capacity attributes on the resources."[18] If a

[13] For example, the CPM soft offer cap is set at 120% of typical generator going-forward costs by design and the rate of the majority of CPM designations since 2012 have been set at the soft offer cap. See CAISO Tariff 43A.4.1.1.2 and archived CAISO CPM Designation Reports (available at: http://www.caiso.com/market/Pages/ReportsBulletins/Default.aspx).

[14] Draft Final Proposal citing DMM's Comments, pp. 45-46.

[15] Id.

[16] Draft Final Proposal citing CPUC Staff's Comments, pp. 43-44.

[17] Draft Final Proposal, p. 22.

[18] Draft Final Proposal citing PG&E's comments, p. 22.

resource has an Effective Flexible Capacity (EFC) value[19] and could be counted towards meeting flexible capacity requirements if procured under an RA contract, then that same resource procured under an RMR contract should also count towards meeting flexible capacity requirements.

Failure to count the Flexible RA value of a resource procured using ratepayer funds would result in additional procurement of unneeded flexible capacity, thereby increasing ratepayer costs. For example, Metcalf Energy Center (which is under RMR for 2018) has an EFC value ranging from 390 megawatts (MW) to 413 MW for 2018, which could be counted towards meeting Flexible Capacity Requirements.[20] CAISO has provided no justification for why allocation of Flexible RA value for RMR resources needs to wait until 2020 for implementation. Allocation of Flexible RA value for RMR resources should be separated from the other issues scoped into phase 2 and instead, completed in time for application for 2019.

ORA notes that support of allocation of Flexible RA value for RMR does not mean support for CAISO's proposal to "explore using RMR as a backstop to cover unmet flexibility capacity needs."[21] CAISO still has not demonstrated why it seeks to expand its authority given current mechanisms in place to procure flexible capacity. Any consideration of using RMR to cover unmet flexible capacity needs requires allocation of flexible capacity attributes from RMR resources. But the opposite is not true; allocation of flexible capacity needs does not require expansion of RMR as a backstop to address flexibility needs.

ii. ORA Supports Consideration of Whether RMR Condition 1 and Condition 2 Unit Types are Needed

ORA continues to support investigating whether both Condition 1 and 2 unit distinctions for RMR agreements are still needed. The Draft Final Proposal notes that market uncertainty has led to generator selection of Condition 2 to ensure cost recovery, though ORA, DMM, Pacific Gas and Electric Company (PG&E), and CPUC have identified the economic and ratepayer benefits of Condition 1 units.[22]

CAISO, PG&E, and Calpine have recently reached an Offer of Settlement arbitrated by the Federal Energy Regulatory Commission (FERC) for the RMR agreements at the Yuba City,

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[19] CAISO Net Qualifying Capacity and Effective Flexible Capacity Lists. https://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=9A94E71F-5542-49E8-BFBF-B9E00A2EC11B

[20] Final Effective Flexible Capacity List-2018, Row 204. Available at: https://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=9A94E71F-5542-49E8-BFBF-B9E00A2EC11B

[21] Draft Final Proposal, p. 22.

[22] Draft Final Proposal citing ORA's comments, p. 37.

Feather River, and Metcalf energy centers. One of the terms of the Settlement switched the units from Condition 2 to Condition 1.[23] ORA recommends that Phase 2 should include an analysis of the costs and benefits of RMR Conditions 1 and 2 and whether they are both necessary to ensure reliability.

C. CPM Issues

i. ORA Supports Expedited Review of Cost Allocation of Year-Ahead CPM to Maintain Customer Indifference

Cost allocation of year-ahead CPMs is complicated by mid-year load departure issues. Load-serving entities (LSEs) within an area benefitting from a year-ahead CPM should receive an adjustment to the costs they pay and the credits they receive for the CPM as load migrates between the LSEs, in order to maintain customer indifference in rates and minimize all ratepayer costs. CAISO intends to address this issue in phase 2,[24] but load departure may accelerate through 2019, before phase 2 enhancements are expected to be in effect at the start of 2020. This issue would be compounded if resources owners seek additional retirements of natural gas power plants in 2018 and 2019.

CAISO should quickly explore tariff and non-tariff modifying approaches to address this issue to provide equitable cost allocation for LSEs experiencing load shifts. If it is not possible to modify CPM in phase 1, the issue should be separated from the other issues scoped into phase 2 and completed in time for application for 2019.

4. Other Comments

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

Comments:

No Additional Comments

[23] See FERC Accession #20180323-5002, "Gilroy Settlement Offer," March 23, 2018, p. 4. Available at: https://elibrary.ferc.gov/idmws/file_list.asp?accession_num=20180323-5002

[24] Draft Final Proposal, p. 23.