Stakeholder Comments Template

Submitted by	Company	Date Submitted
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The Office of Ratepayer Advocates (ORA) provides the following responses to California Independent System Operator's (CAISO's) questions in this template regarding the Review of Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM) Issue Paper and Straw Proposal for Phase 1 Items, dated January 23, 2018 (Proposal).

1. **Comments on phase 1 proposal to make RMR Condition 1 and 2 Units subject to a MOO for Energy and AS.**

Comments:

Phase 1 of this initiative seeks to implement a must-offer obligation (MOO) for future RMR agreements. ORA supports this change to allow the RMR designation to function similar to other Resource Adequacy (RA) products, most of which operate with a MOO. CAISO introduces this change to address a concern of the Department of Market Monitoring (DMM) "To ensure mitigation of local market power and avoid artificial inflation of overall market prices, the limits on market participation by Condition 2 units must be removed and a must offer requirement must be established for [all Condition 1 and Condition 2 units]."[1] The addition of a MOO to both conditions only partially meets DMM's concerns of market power and market distortion. ORA raises additional issues in Section 3 of these comments, which should be included in Phase 2 of this initiative to address market problems caused by RMR and CPM.

[1] Proposal, p. 7.

2. Comments on potential phase 2 items listed in issue paper and straw proposal.

Comments:

RMR & CPM: Review allowed rate of return on capital

ORA supports CAISO's proposal to review the allowed rate of return on capital for RMR and CPM. Prudent adjustments to the current 12.25% rate to consider current market conditions could lead to significant ratepayer savings. ORA recommends that the allowed rate of return on capital for RMR and CPM be benchmarked against current industry standards. Proposals to change from a "hard wired" uniform rate to one which may shift for each agreement may be feasible if properly supported in a proposal.

RMR & CPM: Explore expanding tariff authority

ORA looks forward to the next draft of this Proposal in which the CAISO will explain how its tariff authority is currently deficient. ORA is not aware of any instance in which CAISO desired to issue an RMR or CPM but was not able to do so. If such an event has occurred and CAISO wishes to pursue this issue, the next draft of this initiative should include an example of how an expansion of tariff authority would enhance grid reliability. Current tariff authority appears to be adequate, and further expansion unnecessary. ORA prefers that all RA procurement occur between Load Serving Entities (LSEs) and generator owners through the existing regulated market processes, which have a greater capability to mitigate market power and result in competitive market-based costs. An expansion of CAISO authority to issue RMR and CPM may lead to additional backstop procurement outside of the market, and such procurement typically costs twice as much as average capacity rates procured in the market.[2] Therefore, ORA opposes an expansion of CAISO's RMR and CPM tariff authority absent a clear justification of why that expansion is necessary for maintaining reliability.

RMR: Consider whether both Condition 1 and Condition 2 units are needed

ORA joins DMM,[3] Pacific Gas and Electric Company (PG&E),[4] and the California Public Utilities Commission (CPUC)[5] in supporting increased market participation of RMR units, such as

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[2] The weighted average price of contracted capacity in 2017 was $2.96/kilowatt-month (kw-mo). The average rate for CPM designations since 2012 is $5.91/kw-mo. See CPUC RA Report 2016, p. 22, http://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442453942 and current and archived CAISO CPM Designation Reports, http://www.caiso.com/market/Pages/ReportsBulletins/Default.aspx

[3] DMM stated that Condition 2 is, "economically inefficient, artificially inflates overall market prices, and is unjust and unreasonable for consumers." See: Motion to Intervene and Protest of the Department of Market Monitoring of the CAISO Corporation under ER18-240, November 22, 2017, p. 4, https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14622007.

would occur with Condition 1 RMR agreements, in order to avoid high ratepayer costs. Condition 2 units essentially depart the market, which prevents the units from offering a market bid to meet load if CAISO does not direct an offering be made. Without the units available to the market, a unit with a higher cost bid will be selected to meet load. Generators state that Condition 1 is currently undesirable since they generally do not expect full cost recovery is possible if costs are recovered in part from market activity.[6] Stakeholder proposals and discussions may be able to design a merger of the two Conditions, or revise Condition 2 to facilitate further market involvement for the unit. ORA supports further discussion of a merging of the two Conditions which, depending on its ultimate design, may decrease ratepayer costs by increasing the market participation of RMR units.

RMR: Review cost allocation

ORA supports CAISO's proposal to review cost allocation of RMR agreements. RMR contracts are used to procure resources to meet a reliability need. The Proposal states that the "responsible utility identified in the RMR agreement is currently responsible for the costs paid to the RMR owner under the RMR agreement."[7] Resolving a reliability deficiency in a local area may benefit more than a single utility or LSE and, therefore, it is appropriate to determine how costs can be allocated across all benefiting entities. As more LSEs emerge in California and these contracts provide benefits to multiple LSEs, equitable cost allocation is necessary to ensure cost indifference between bundled and unbundled ratepayers.

RMR: Expand designation authority to include flexibility needs

CAISO is currently authorized to contract RMR resources based on unmet local capacity needs but not flexible capacity needs.[8] ORA does not support the proposal to expand CAISO's designation authority to also include flexibility needs. It is premature to expand CAISO's authority to RMR resources based on flexible capacity needs when discussion in CAISO's Flexible Resource Adequacy Criteria and Must Offer Obligations (FRACMOO2) stakeholder

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[4] Motion to Intervene and Protest of Pacific Gas and Electric Company under ER18-240, November 22, 2017, p. 12, https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14621957.

[5] Protest of the Public Utilities Commission of the State of California under ER18-240, November 24, 2017, p. 11, https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14622303.

[6] Calpine asserted at the January 30, 2018 workshop for this initiative that Condition 1 would not provide a viable revenue stream. See also: Calpine Letter to CAISO – Metcalf Energy Center Retirement Assessment, http://www.caiso.com/Documents/CalpineLetter_CAISO_MetcalfEnergyCenterRetirementAssessment.PDF

[7] CAISO Issue Paper and Straw Proposal, p. 10.

[8] CAISO Issue Paper and Straw Proposal, p. 11.

initiative is ongoing. CAISO is proposing energy market enhancements that will improve scheduling and dispatch of resources.[9] CAISO has not demonstrated that additional changes are needed to flexible capacity products, let alone to whether the CAISO needs to expand its authority to designate RMR for flexibility needs.[10]

Additionally, the CPUC's RA program requires LSEs to demonstrate that they have procured at least 90% of the next year's monthly flexible capacity needs in the year-ahead showing. It is only in the month-ahead showing that LSEs need to demonstrate 100% procurement to satisfy flexible capacity requirements for that month. Given this time frame for compliance, it is unclear why CAISO would need to designate resources as RMR for flexibility purposes when it already has the capability to procure resources under CPM if the LSE's showings demonstrate insufficient procurement.[11] This stakeholder initiative should focus on resolving the current problems with RMR and CPM and not on an unnecessary requirement that would increase ratepayer costs.

CPM: Align CPM tariff to RMR rules to allow recovery for needed capital additions

ORA opposes CAISO's proposal to allow CPM-designated resources to recover capital addition costs in the same way RMR-designated units do. The majority of past CPM designations have had terms lasting between one or two months and need not include new cost recovery provisions to ensure the long-term operations of the resource. Allowing cost recovery for capital additions through CPM could incentivize resources to delay investments if they expect to receive a CPM designation in the future. Additionally, funding such capital additions through the CPM could enable the resource to offer more competitive prices in future market solicitations, putting resources that do not use CPM to fund capital additions at a disadvantage.

Two CPM types, "Risk of Retirement" and "Annual Local" may have longer terms and require capital additions to operate. The Federal Energy Regulatory Commission (FERC) is currently considering using RMR-style calculations for Risk of Retirement CPMs.[12] Annual Local CPM can recover capital costs through its Competitive Solicitation Process (CSP) bid price or

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[9] CAISO Policy Initiative Catalog, December 7, 2017, pp. 16-17.

[10] Energy Division Comments on FRACMOO2 Draft Framework Proposal, December 11, 2017, p.2; Southern California Edison Company Comments on FRACMOO2 Draft Framework Proposal, December 11, 2017, p.2; San Diego Gas & Electric Company Comments on FRACMOO2 Draft Framework Proposal, December 11, 2017, p.2

[11] CAISO Tariff 43A.2.7.

[12] CAISO Docket No. ER18-641, p. 4. https://www.caiso.com/Documents/Jan12_2018_TariffAmendment-CPMRisk_Retirement_ProcessEnhancements_ER18-641.pdf

through authorization from FERC.[13] Since Risk of Retirement and Annual Local CPMs have other options for cost recovery of capital additions, there is no need to duplicate this in the current initiative.

3. Suggested additional items for phase 2 that are not listed in issue paper and straw and why the items need to be addressed.

Comments:

Increase stakeholder involvement and transparency of RMR and CPM processes

CAISO should consider changes to its RMR and CPM processes to increase stakeholder involvement and transparency. For 2018, three resources have been given new RMR agreements and three other units were granted Annual Local CPMs. These agreements total 1,749 megawatts (MW) for the year,[14] a substantial volume of resources whose capacity rates are significantly higher than RA market prices.[15] Many stakeholders have raised concerns with the lack of information from CAISO, expedited timeframes, and uncertainty regarding the process.[16] In particular, the CPUC was unable to confirm if "the rates filed by Metcalf are just and reasonable" for Metcalf's RMR designation before the FERC.[17] Lack of information from CAISO means stakeholders cannot anticipate and react to new RMR and CPM designations which carry with them significant ratepayer costs.

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[13] CAISO Tariff 43A.7.1.

[14] Moss Landing CPM for 510 MW, two Encina CPMs for a total of 545 MW, Yuba City RMR for 47 MW, Feather River RMR for 47 MW, Metcalf RMR for 600 MW.

[15] The weighted average price of contracted capacity in 2017 is $2.96/kilowatt-month (kw-mo). The average rate for CPM designations since 2012 is $5.91/kw-mo. See CPUC RA Report 2016, p. 22, http://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442453942 and current and archived CAISO CPM Designation Reports, http://www.caiso.com/market/Pages/ReportsBulletins/Default.aspx

[16] See the following examples: ORA Comments to Potential RMR Designation: Yuba City Energy Center and Feather River Energy Center, March 10, 2017, p. 2, http://www.caiso.com/Documents/ORAComments_PotentialRMRDesignation_YubaCityCenter_FeatherRiverEnergyCenter.pdf;

Comments of PG&E RMR Designation: Feather River and Yuba City, 10 March 2017, p. 1, http://www.caiso.com/Documents/PG_EComments_PotentialRMRDesignation_YubaCityCenter_FeatherRiverEnergyCenter.pdf; and

San Diego Gas & Electric Comments RMR Designations for the Yuba City Energy Center and the Feather River Energy Center, 13 March 2017, p. 1, http://www.caiso.com/Documents/SDG_EComments_PotentialRMRDesignation_YubaCityCenter_FeatherRiverEnergyCenter.pdf.

[17] Protest of the Public Utilities Commission of the State of California Re: FERC Docket No. ER18-240-000, 24 November 2017, p. 2. https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14622303

In order to facilitate informed procurement and ratemaking decisions by all stakeholders involved in the RA market, CAISO should include in the scope of this initiative proposals which would allow stakeholders to:

- be notified of potential upcoming RMR and non-contingency CPM designations when CAISO decides to conduct a study for possible backstop
- work with CAISO to understand the justification for the designation and explore preferable alternatives
- understand the costs of the designation and its allocation to LSEs (not to include market-sensitive data)
- analyze data to anticipate the cost impacts to ratepayers

Modify the Competitive Solicitation Process (CSP) for CPM processes

CAISO should add a review of the CSP to the scope of this initiative, with the goal of providing more information on the stakeholder process and addressing market power concerns. The CSP is intended to be competitive, but as of 2014 only four of the 26 CPM dispatches have had a price lower than the soft offer price cap of $6.31/kW-mo.[18] The recent Annual Local CPMs are also at or very near the cap and by themselves will likely exceed the total costs of all other CPMs since 2012.[19] The rates of Annual Local CPMs deserve particular attention because of the scale of the total costs, and because the Annual Local CPMs grant the generators implicit market power, since no other resource can be used to meet the local deficiency.

The CSP is conducted in-house by CAISO with minimal, if any, input from or notification to stakeholders.[20] Despite the scale of the Annual Local CPMs, CAISO has only held two meetings with scheduling coordinators and did not send a notice of those meetings to other stakeholders nor discuss how rates or resource selection was determined. This is very troubling since ratepayers are subjected to increased costs from CPM prices that result from an opaque CSP process.

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[18] See the CPM Dispatch Designation Reports listed and archived here: http://www.caiso.com/market/Pages/ReportsBulletins/Default.aspx

[19] If Carlsbad's operation date is delayed past December 2018, the three Annual Local CPMs will cost approximately $79.2 million. All other CPMs since March 1, 2012 had an estimated cumulative cost of $51.8 million. Calculated using rates from the CAISO CPM Dispatch Designation Reports linked above.

[20] DMM publishes a quarterly market issues and performance report which includes a summary of CPM designations and may include a notification that CSP was utilized, but does not describe the particular CSP and may not provide analysis. See: http://www.caiso.com/market/Pages/MarketMonitoring/MarketIssuesPerfomanceReports/Default.aspx

CAISO should use this initiative to explore increased reporting of the CSP to stakeholders and the general public. In-depth reporting may also be considered for stakeholders who have signed non-disclosure agreements when market sensitive data of ratemaking is concerned. This reporting would reduce the problems inherent with dealing with a market power situation and allow CAISO to justify increases to ratepayer costs.

Alter Tariff 43A to allow CPM terms to match reliability needs

CAISO should include in this initiative a review of CPM term lengths, in particular the Non-System Exceptional Dispatch CPM which has a minimum term of 60 days. This CPM was recently used at Mandalay 7 to ensure reliability during the Ventura County fires at a total cost of $7 million.[21] A 30-day term with an option to renew if necessary would have been a prudent[22] course of action to provide the same reliability assurances at potentially half the ratepayer cost.

This initiative is an opportunity for CAISO and stakeholders to make adjustments to the tariff in order to decrease costs without harming CAISO's capability to address reliability concerns.

RMR Market Power Considerations

CAISO should include consideration of market power issues for RMR contracts in Phase 2 of the initiative.[23] Recently, resource owners have approached CAISO with requests for analysis on the potential retirement of specific resources and CAISO has waited until the analysis has found a need before informing stakeholders.[24] This process leaves no time to consider procurement of alternative solutions and provides those generators with information on their market position. Additionally, RMR contracts may fund capital investments to the facility that will enable it to continue operation beyond the life of the RMR contract and could

[21] See: http://www.caiso.com/Documents/December5_2017ExceptionalDispatchCPMDesignationReport.pdf

[22] PG&E was able to restore 97% of electricity to customers within 14 days of the Sonoma/Napa county fires in which took place two months prior to the Ventura fires. This scenario provided a recent comparison which could have guided prudent term-length for the Mandalay designation. http://www.sonomacountygazette.com/sonoma-county-news/pg-amp-e-restores-power-in-areas-impacted-by-tubbs-fire.

[23] The Department of Market Monitoring concluded that the Metcalf RMR "confirms that the resource possesses unilateral local market power." See: Motion to Intervene and Protest of the Department of Market Monitoring of the CAISO Corporation under ER18-240, 22 November, 2017, p. 3, https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14622007

[24] See: Calpine Peakers Retirement Assessment for Yuba City Energy Center and Feather River Energy Center Presentation, March 6, 2017, p.2.

potentially provide it with a competitive advantage over other resources when bidding into future procurement solicitations.

CAISO should consider how to address these market power issues in this initiative. CAISO could provide a demonstration of precise local needs that rely on specific resources for reliability through its LCR studies. This would include analysis to identify essential resources before they consider retirement so the CPUC can explore procurement of alternatives to introduce competition and minimize ratepayer costs. At a minimum, CAISO should adopt a process to notify all stakeholders when owners request analysis on the potential retirement of their resources and to provide information on the capabilities of the resource and its relationship with the grid. CAISO will need time to conduct its analysis to determine whether the resource can retire, but early information about a potential retirement will enable consideration of alternative resources.

4. Other Comments

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

Comments:

No other comments.