California ISO

Stakeholder Comments Template
Capacity Procurement Mechanism Soft Offer Cap Initiative
Draft Final Proposal

Submitted by	Organization	Date Submitted
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1. Please provide your organization's overall position on the draft final proposal for this initiative. Select from options below and explain position.

Please double click on check box below to select your position:

☐ Support
☐ Support with caveats
☒ Oppose
☐ Undecided

Explain position:

The California Independent System Operator (CAISO) released the Draft Final Proposal for the Capacity Procurement Mechanism (CPM) Soft Offer Cap on January 6, 2020. The Public Advocates Office does not support the Draft Final Proposal for the reasons listed below.

The Stakeholder Process of this Initiative Prevented Development of a Replacement Soft Offer Cap Methodology

The Public Advocates Office continues to support a re-evaluation of the soft offer cap calculation methodology. The CAISO acknowledges that changes to the California grid may necessitate changing "how the soft offer cap is set,"[1] but proposes to leave the soft offer cap at its current rate. The current CPM Soft Offer Cap Initiative included stakeholder comments concerning potential changes to the reference resource used to calculate the soft offer cap.[2] Although many stakeholder comments offered critiques of the soft offer cap calculation methodology as a whole, these comments regarding the calculation methodology were not discussed or evaluated in the

[1] Draft Final Proposal, pp. 6 and 8.

[2] Straw Proposal, July 24, 2019, p. 10. Also Draft Final Proposal, p. 8.

Draft Final Proposal.[3] The calculation methodology was discussed briefly during the January 9, 2020 stakeholder call, but the discussion did not include any CAISO analysis or discussion of calculation methodology-related comments.[4]

The lack of discussion in the Draft Final Proposal regarding potential changes to the soft offer cap methodology minimizes the effectiveness of the stakeholder process. Stakeholders have been unable to use the CAISO stakeholder process to discuss and develop possible alternative methodologies for the soft offer cap and the CAISO has not provided a response or to aid development. In addition, the CAISO appears to have skipped one or two steps[5] of the stakeholder process by not creating a Revised Straw Proposal and Second Revised Straw Proposal which would provide opportunities for additional stakeholder input. Finally, although the CAISO invited comments on the Draft Final Proposal, it terminates the stakeholder process at the same time in the Draft Final Proposal.[6] Therefore, it appears that CAISO will not consider this round of comments in the present stakeholder initiative. These factors have significantly limited the impact of stakeholder comments and concerns and have prevented meaningful policy development.

The CAISO should modify the current initiative to include additional rounds of draft proposals that both consider stakeholder comments and provide a response from the CAISO concerning recommended changes to the soft offer cap calculation methodology. If the CAISO decides to terminate this initiative as part of the Draft Final Proposal, a new initiative to consider the soft offer cap calculation methodology and related concerns[7] should be launched immediately.

Market Power Tests for 12-month CPMs are Crucial to Ratepayer Protection

The Draft Final Proposal rejects further development and implementation of a market power test and mitigated CPM rate for 12-month long CPM designations based on perceived market inefficiencies, administrative burdens, and "[blurring] the line between RMR [Reliability Must

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[3] Energy Division Staff Comments, September 4, 2019, pp. 3-6. Department of Market Monitoring (DMM) Supplemental Comments, September 10, 2019, pp. 1-2. Middle River Power Comments, August 20, 2019, p. 2. Pacific Gas and Electric Company Comments, August 22, 2019, pp. 3-4. Western Power Trading Forum Comments, August 20, 2019, p. 2.

[4] The supplemental comments of the DMM provided a review of twenty studies concerning fixed operations and maintenance costs of the type of unit referenced for the soft offer cap calculation. DMM's findings appear to demonstrate that the rates developed by the California Energy Commission (CEC) in recent years is significantly higher than other studies, including two other CEC studies from 2007 and 2009. The Public Advocates Office is particularly eager for more thoughtful consideration of DMM's findings in this or future initiatives. DMM Supplemental Comments, September 10, 2019.

[5] "One or two" because the Draft Final Proposal lists both Revised and Second Revised proposals, (Draft Final Proposal, p. 3) whereas the earlier Straw Proposal lists only a Revised Straw Proposal to come before the current Draft Final Proposal (Straw Proposal, p. 4).

[6] "This particular draft final proposal will include a window for feedback on the proposal. However, as this proposal does not have include moving forward [sic] with any new policy changes and will therefore terminate the stakeholder process." Draft Final Proposal, p. 2.

[7] Other topics such as a discussion of 12-month CPM market power tests and related CPM and Reliability Must Run enhancements.

Run] and CPM procurement…."[8] While 12-month CPM designations are rare, three such designations were made in 2018 with a cost of about $78 million.[9] The addition of market power mitigation provisions to 12-month CPM designations would address stakeholder concerns regarding limited competition amongst energy providers who are able to provide the type of reliability required. The CAISO, in its Straw Proposal, had proposed a 3-pivotal supplier test and full cost of service compensation to address those stakeholder concerns.[10] While the Draft Final Proposal acknowledges these concerns as an important issue for stakeholders, the CAISO now insists that the soft offer cap itself remains an adequate measure to prevent market power.[11]

The Public Advocates Office strongly supports the addition of market power mitigation provisions to the CPM process, particularly for the 12-month CPM designations,[12] given that the CAISO itself has pointed out that having few resources or providers that can meet a specific CPM designation could result in uncompetitive CPM offers.[13]

Aspects of the CAISO grid have already been identified as being resource scarce and/or uncompetitive. At the system-level, the CAISO has detected[14] uncompetitive hours in day-to-day energy supply and has launched the System Market Power Mitigation Initiative to develop mitigation tools. However, the 12-month CPMs that have already occurred were at the local level, and the CAISO has found local resource adequacy (RA) areas to be structurally uncompetitive with one pivotal supplier controlling "a significant portion of capacity needed" to meet RA requirements in five of the ten Local Capacity Requirement areas.[15] These facts, combined with the concerns surrounding system RA resources,[16] demonstrate that capacity scarcity is present on the CAISO grid and market power mitigation is necessary to protect ratepayers from the exercise of market power by suppliers.

The CAISO has not demonstrated why it is unable to implement, let alone discuss with stakeholders, 12-month CPM market power provisions. The CAISO has identified administrative burdens and market inefficiencies but has not justified why ratepayers must bear the costs of potential market power rather than develop solutions to the problem.

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[8] Draft Final Proposal, p. 9.

[9] CAISO 2018 Annual Report on Market Issues & Performance, p. 228.

[10] Straw Proposal, pp. 12-18.

[11] Draft Final Proposal, pp. 2 and 9.

[12] 12-month CPMs represent the vast majority of annual CPM costs. The three 12-month CPMs in 2018 cost $78 million whereas all other CPMs in 2018 cost $21.9 million in 2018, and $7 million in 2017. CAISO 2018 Annual Report on Market Issues & Performance, p. 15.

[13] Straw Proposal, p. 11.

[14] CAISO, Analysis of Structural System-Level Competitiveness in the CAISO Balancing Authority Area, September 3, 2019, p. 3.

[15] CAISO 2018 Annual Report on Market Issues & Performance, p. 13-14.

[16] CPUC Decision 19-11-016, p. 2 and Finding of Fact 3: "Commission staff analysis of the supply stack of current system resource adequacy resources available to serve load in 2021 suggests that supplies are tight and that reliance on imports will be increased beyond historical levels, creating uncertainty in system capacity supply."

The CAISO also is unwilling to "blur the line" between CPM and RMR rate designs.[17] The CAISO states that the full cost of service compensation that it proposed in the Straw Proposal[18] of this initiative is too similar to how RMR-designated units are compensated, and that distinction between CPM and RMR is preferred by the CAISO.[19] However, the CAISO and stakeholders may be able to develop an alternative form of compensation for mitigated CPM designations, or a non-rate-based solution to mitigate a competitive CPM solicitation, in this or a future initiative.

The Public Advocates Office concurs with the Pacific Gas and Electric Company (PG&E) and Southern California Edison (SCE) that the Draft Final Proposal should include further development of these market power mitigation provisions; provisions that stakeholders generally agreed would be implemented following the previous proposal.[20] The Public Advocates Office recommends that the CAISO issue additional draft proposals and solicit further stakeholder input on these issues in the current initiative, or launch a new initiative to develop market power mitigation provisions for the CPM process.

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[17] Draft Final Proposal, p. 9.

[18] "This compensation is meant to mirror the compensation that is awarded to RMR resources." Straw Proposal, pp. 12-14.

[19] RMR agreements are mandatory contracts between CAISO and a generator to provide reliability to the grid on an annual basis. RMR units are given "full cost of service" compensation which is calculated by the generator and ultimately approved of by the Federal Energy Regulatory Commission. The CAISO explained at the January 9 stakeholder call that it desires to have separate methods of compensation for CPM and RMR, two backstop methods which the CAISO aimed to make more distinct from each other in the CPM-RMR Enhancements Initiative of 2018-2019. See Draft Final Proposal, p. 9 and Straw Proposal, pp. 12-16.

[20] As expressed by representatives of PG&E and SCE on the January 9, 2020 stakeholder call.