Stakeholder Comments Template

Submitted by	Company	Date Submitted
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The January 23, 2019 draft final proposal and the presentation discussed during the January 30, 2019 stakeholder conference call can be found on the following webpage: http://www.caiso.com/informed/Pages/StakeholderProcesses/Review_ReliabilityMust-Run_CapacityProcurementMechanism.aspx.

Please use this template to provide your written comments on the items listed below and any additional comments that you wish to provide.

1. Comments on January 23, 2019 draft final proposal.

Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM)

a. Provide notice to stakeholders of resource retirements

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office has no comment at this time.

b. Clarify use of RMR versus CPM procurement

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The CAISO proposes that if a resource submits an affidavit to retire or mothball but is not given an RMR designation, the resource does not actually need to retire or mothball if it "receives some other contracts."[1] During the January 30, 2019 stakeholder conference call,

[1] Draft Final Proposal, p. 15.

stakeholders raised the concern that as currently drafted, the proposal is too vague and could allow the use of an energy-only or non-unit contingent contract to obviate the need to retire or mothball.[2] This could enable resource owners to game the RMR process by submitting an affidavit to retire or mothball as a means to obtaining a lucrative RMR designation and simply using an energy-only or non-unit contingent contract to avoid actually retiring or mothballing the resource if it does not receive an RMR designation. In addition, resource owners could submit an affidavit to retire or mothball in order to discover whether they are needed for reliability and subsequently change their bidding behavior to exercise market power. The Public Advocates Office recommends that CAISO revise the proposal to specify that resource owners cannot use energy-only or non-unit contingent contracts to avoid retirement or mothball.

c. Explore whether Risk of Retirement CPM and RMR procurement can be merged into one mechanism

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The CAISO proposes to move the authority to designate a resource needed in year 2 with a bridge in year 1 from the CPM Risk of Retirement tariff to the RMR tariff. The Public Advocates Office supports this proposal but recommends clarification for the final proposal. During the stakeholder meeting, the CAISO clarified that this authority would only apply to resources with an affidavit stating an intent to retire and not simply to mothball.[3] The Draft Final Proposal does not address this important distinction and should be revised to clarify that resources that may be mothballed cannot qualify to get an RMR designation for year 1 based on a need in year 2.

RMR

d. Develop an interim pro forma RMR agreement

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

[2] RMR and CPM Enhancements Stakeholder Meeting, January 30, 2019.

[3] RMR and CPM Enhancements Stakeholder Meeting, January 30, 2019.

The Public Advocates Office has no comment at this time.

e. Consider making RMR resources subject to a must offer obligation

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office continues to support CAISO's proposal to apply a Must Offer Obligation (MOO) to RMR resources for the energy and ancillary services markets. Applying a MOO will better integrate RMR resources into the energy markets and align the treatment of RMR resources with RA requirements, ensuring ratepayers receive the most RA benefits from resources they pay for.

f. Consider making RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office supports applying the Resource Adequacy Availability Incentive Mechanism (RAAIM) to RMR resources. This will provide an incentive and penalty structure to RMR units similar to other RA resources. The RAAIM will compliment the implementation of a MOO for RMR resources by ensuring resources strive to meet their RA obligations. The Public Advocates Office agrees with CAISO that general refinement to RAAIM is best suited to its RA Enhancement initiative.[4]

g. Consider whether RMR Condition 1 and 2 options are needed

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office has no comment at this time.

h. Update rate of return for RMR compensation

[4] Draft Final Proposal, p. 27.

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The CAISO seeks to modify the existing 12.25% rate of return for RMR agreements following stakeholder arguments that the rate was excessive and out of date.[5] The Draft Final Proposal proposes to remove the rate from the CAISO Tariff and instead allow generators to propose, justify, and negotiate a rate of return for each RMR designation before the Federal Energy Regulatory Committee (FERC) and any following stakeholder interventions.[6]

This approach avoids the difficulty of setting a new rate in the CAISO tariff, but will lengthen the process of executing RMR agreements by adding the costly and contentious issue of reasonable profit to the RMR execution process.[7] Having a hard-wired tariff rate avoids a development process by the resource owner to determine a reasonable rate of return, the need to justify it before the FERC, and to defend or re-negotiate it in any subsequent stakeholder interventions filed with the relevant FERC proceeding. The proposed approach will complicate and lengthen the RMR process.

Lastly, failing to replace the current 12.25% tariff rate with another set rate does not meet CAISO's objective to address concerns that 12.25% may be excessive. Allowing the rate of return to be determined on a per-RMR agreement basis provides no certainty for what rates may be ultimately approved of at the FERC or settled amongst stakeholders.

The Public Advocates Office continues to recommend the adoption of the prime rate as the rate of return, which would be set with possible updates in the CAISO Tariff.[8]

i. Align pro forma RMR agreement with RMR tariff authority that provides ability to designate for system and flexible needs

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[5] Draft Final Proposal, p. 18 and p. 29.

[6] Draft Final Proposal, pp. 29-30.

[7] Calpine Corporation has already identified that a set rate "simplifies the significant burden placed on the resource owner… in preparing an RMR revenue requirement." Comments of the Calpine Corporation on the September 19, 2018 Revised Straw Proposal, p. 3. Available at: http://www.caiso.com/Documents/CalpineComments-ReliabilityMust-RunandCapacityProcurementMechanismEnhancements-RevisedStrawProposal.pdf

[8] Comments of the Public Advocates Office on the December 12, 2018 Second Revised Straw Proposal, p. 5.

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Draft Final Proposal considers replacing the cost allocation methodology used for RMR agreements with the same cost allocation methodology used for CPM designations; each LSE would be allocated proportional local, system, and/or flexible costs for RMR agreements and CPM designations.[9] This change would increase the visibility of RMR costs to LSEs by providing a clear accounting of the charge(s) to each LSE's own scheduling coordinators, rather than through the Participating Transmission Owner (PTO). As the number of LSEs grow each year, this proposal will enhance the transparency of grid charges associated with RMR agreements, benefitting LSE's knowledge of their allocated costs.

j. Allocate flexible Resource Adequacy credits from RMR designations

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office has no comment at this time.

k. Streamline and automate RMR settlement process

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office has no comment at this time.

l. Lower banking costs associated with RMR invoicing

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office has no comment at this time.

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[9] Draft Final Proposal, p. 31.

CPM

m. Change CPM pricing formula for resources that file at the Federal Energy Commission for a CPM price above the soft-offer cap price because the current methodology provides for full cost of service cost recovery plus retention of all market revenues

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The CAISO proposes that CPM-designated resources seeking a rate above the soft-offer cap can submit a bid based on its going forward fixed costs (GFFC) plus a 20% cost adder, while keeping all market rents earned from operation during the designation.[10] After stakeholders raised concerns with such high compensation, the Draft Final Proposal includes an alternative proposal for review at the FERC in which above-soft-offer cap rates would only include GFFC and market rents with no 20% cost adder.

The Public Advocates supports the alternative proposal. As explained in previous comments,[11] the 20% adder in the soft-offer cap is designed to allow resources with higher GFFC to recover their GFFC only, and not to provide a premium on top of GFFC. A 20% cost adder to the GFFC to calculate the above-soft-offer cap price for CPM resources would effectively allow for overcompensation of generators if their GFFC plus 20% is above the soft-offer cap.

n. Evaluate if load serving entities have been using CPM for their primary capacity procurement

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

Comments:

The Public Advocates Office has no comment at this time.

o. Clarify deadline for ISO to post CPM designation report

Please indicate whether you support the draft final proposal and why. If you oppose the draft final proposal, please state so and indicate the reason(s) for your opposition.

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[10] Draft Final Proposal, p. 43.

[11] Comments of the Public Advocates Office on the December 12, 2018 Second Revised Straw Proposal, p. 7.

Comments:

The Public Advocates Office has no comment at this time.

2. <u>Other Comments</u>

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

Comments:

The Public Advocates Office has no additional comments at this time.