Stakeholder Comments Template

Submitted by	Company	Date Submitted
Xian Ming "Cindy" Li *Patrick Cunningham* *Patrick.cunningham@cpuc.ca.gov* *415-703-1993*	*Public Advocates Office – California Public Utilities Commission*	*January 10, 2019*

The December 12, 2018 second revised straw proposal and the presentation discussed during the December 20, 2018 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 December 12, 2018 second revised straw proposal.

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

a. Provide notice to stakeholders of resource retirements

Comments:

The Public Advocates Office supports providing notice to stakeholders when resource owners contact the CAISO regarding the possible retirement or mothballing of a resource. The CAISO should provide timely updates and publish the updated Announced Retirement and Mothball List on its website as the status of retirements change following CAISO studies and generator actions, regardless of whether a new change meets the proposed 45 MW threshold to send an e-mail notification. The CAISO should also include information in the spreadsheet noting the date on which the data for a resource was last updated to complement the highlighting of updated information currently in place.

b. Clarify use of RMR versus CPM procurement

Comments:

The Public Advocates Office supports the CAISO's clarification stating that a resource that is bid into the CPM Competitive Solicitation Process (CSP) cannot decline a CPM designation.[1] In particular, the Public Advocates Office agrees with the proposal that if a resource that is not bid into the CSP declines a CPM designation, the resource must submit a legal affidavit attesting the resource will retire, unless some other type of procurement occurs, before the CAISO considers it for an RMR designation. These measures are improvements on current requirements and may potentially dissuade resource owners from trying to game the backstop procurement processes.

Also, the CAISO's proposal currently states that "[i]n the formal retirement notice to the ISO, the resource must state that it is planning to retire at a certain date, but no earlier than 90 days from the notice of termination of the PGA [Participating Generator Agreement]."[2] It does not discuss when the PGA will terminate. The Public Advocated Office recommends that CAISO clarify that it will terminate the PGA by an established deadline for a resource with a legal affidavit attesting that the resource will retire, unless some other type of procurement occurs, if the CAISO does not find a need for the resource. This clarification would support the process for resource retirement and discourage resource owners from claiming they plan to retire or mothball resources in order to gain information about the need for their resource that would not otherwise be available.

The CAISO also proposes that if a resource owner with a resource adequacy (RA) contract in the current year plans to retire or mothball a resource, it may submit a notice by February 1 of the current RA year.[3] The CAISO would inform stakeholders of results of the reliability study by May 15 and would not start the RMR procurement process for such a resource until September 1, providing an opportunity for procurement through an RA contract. The Public Advocates Office recommends that the CAISO clarify that it will use the existing local and flexible capacity technical study processes to determine the reliability need for a resource

[1] CAISO Reliability Must Run and Capacity Procurement Mechanism Enhancements Second Revised Straw Proposal, December 12, 2018 ("Second Revised Straw Proposal"), p. 19.

[2] Id., p. 13.

[3] Id., p. 14.

when a resource owner submits a notice of its intent to retire or mothball the resource. Submission of a notice by February 1 will allow review of the resources through the existing studies. Using the existing local and flexible technical studies will also ensure that any need for such resources will be considered as part of the current RA proceeding when the studies are submitted to the California Public Utilities Commission (CPUC). The CPUC can consider planned procurement to address any market power issues through the RA and Integrated Resource Planning (IRP) proceedings.

The CAISO rejected proposals for economic tests to determine whether resource owners are seeking RMR contracts for resources that are actually uneconomic.[4] However, the CAISO's straw proposal does not sufficiently address the potential for resource owners to seek RMR agreements without actually intending to retire or mothball their resource. The legal affidavit provides greater weight in demonstrating an intent to retire a resource, but it does not apply to requests to mothball a resource. Additionally, a resource owner could simply mothball a resource for two months and then return to service. The CAISO should discuss the eligibility of resources for mothballing and apply additional conditions to deter gaming, such as extending the minimum time period for mothballing a resource or limiting the frequency of requests to mothball.

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

Comments:

The CAISO proposes to merge Risk of Retirement (ROR) CPM authority and RMR procurement under one mechanism under the RMR tariff.[5] Under this proposal, the CAISO could execute an RMR agreement with a resource for Year 1 if it identifies a need for the resource in Year 2. As discussed in Section B, the CAISO should clarify that it will incorporate any study of reliability need in Year 2 into the existing local and flexible capacity technical study processes. The studies would then be submitted to the CPUC. The identification of any need in

[4] December 20, 2018 Stakeholder conference call.

[5] Second Revised Straw Proposal, p. 16.

Year 2 indicates ongoing market power issues that the CPUC should work to address by considering development of resource alternatives or other solutions.

The CAISO should also clarify that a resource is only eligible for an RMR based on a need in Year 2 if the resource owner submits a legal affidavit stating its intent to retire. Requests to mothball the resource should not qualify for an RMR based on a need in Year 2. Mothballing a resource removes it from service temporarily, so it could still be available for service in Year 2. It is not necessary to procure a resource that intends to mothball through an RMR agreement for Year 1 unless there is a need in Year 1.

RMR

d. Develop an interim pro forma RMR agreement

Comments:

No Comment

e. Make RMR resources subject to a must offer obligation

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 benefit from resources they pay for.

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

Comments:

No Comment

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

Comments:

No Comment

h. Update rate of return for RMR compensation

Comments:

The Second Revised Straw Proposal proposes to eliminate the current 12.25% rate of return for RMR agreements and instead require the resource owner seeking an RMR agreement to calculate and support a rate of return for each agreement.[6] Currently, and as proposed, to calculate the authorized return of an RMR project, the rate of return is multiplied by the resource's net investment.[7] The CAISO acknowledges that using a specific rate of return for each RMR agreement would create additional work for the RMR process.[8]

The Public Advocates Office supports the proposal of the Department of Market Monitoring (DMM) to compensate resources based on their Going Forward Fixed Costs (GFFC) plus a reasonable profit.[9] DMM's approach would provide for payment of the costs to operate the resource with a fair profit margin that would be preferable to departing the market through retirement or mothballing.

The reasonable profit should be an amount above GFFC that ensures the generator doesn't experience net expenses during the RMR agreement term. The prime rate is used to set rates of interest for private loans and is partially driven by the federal funds rate set by the Federal Reserve System. The Wall Street Journal (WSJ) Prime Rate, currently 5.5%,[10] is a commonly used index of prime rates and would be suitable for the CAISO Tariff to refer to. The Tariff may also use an average annual prime rate or allow generators a dynamic rate of recovery which shifts when the WSJ prime rate changes due to national market trends.

---

[6] Second Revised Straw Proposal, pp. 23-24.

[7] Calculated as: (Gross Plant Investment + Construction Work In Progress + Plant Held for Future Use + Working Capital) minus (Depreciation Reserve + Accumulated Deferred Income Taxes). See CAISO Tariff Appendix G, Schedule F, pp. 107-108.

[8] Second Revised Straw Proposal, p. 24.

[9] DMM proposed that the CAISO consider either: compensating resources their GFFC and a fixed profit but crediting market revenues back to ratepayers or; compensating the resource its GFFC with no fixed profit rate but allowing it to keep market revenues. See Review of RMR and CPM Straw Proposal and July 11, 2018 Working Group Comments by the DMM, August 17, 2018, pp. 1-3.

[10] As of January 7, 2019. See: http://www.wsj.com/mdc/public/page/2_3020-moneyrate.html

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

Comments:

The Public Advocates Office noted in previous comments that stakeholders have inquired what additional technical studies the CAISO would perform prior to designating a resource as RMR based on system and/or flexible needs.[11] The CAISO should clarify the applicable reliability criteria it would use in such an assessment and what technical studies it would perform to determine whether the criteria are met.

j. Allocate flexible Resource Adequacy credits from RMR designations

Comments:

The Public Advocates Office supports the allocation of flexible RA credits from RMR designations as described in the Second Revised Straw Proposal and the clarification provided that an Effective Flexible Capacity value qualifies a resource to provide flexible RA attributes through an RMR agreement.[12]

k. Streamline and automate RMR settlement process

Comments:

No Comment

l. Lower banking costs associated with RMR invoicing

Comments:

No Comment

CPM

m. Change CPM pricing formula for resources that file at FERC for a CPM price above the soft-offer cap price

---

[11] Public Advocates Office Comments on the September 19, 2018 Revised Straw Proposal, October 23, 2018, p. 5.

[12] Second Revised Straw Proposal, pp. 25-26.

Comments:

The Public Advocates Office opposes adding a 20% cost adder to the GFFC to calculate the above-soft offer cap price for CPM resources. CAISO proposes a 20% cost adder because that is the same adder applied to the CPM reference resource to create the soft-offer cap.[13] The soft-offer cap is intended to be a benchmark for a reference unit to establish average costs of capacity plus 20%.[14] The CAISO has stated that the 20% adder allows "for resources with costs higher than the mid-cost case to recover their fixed costs" and act as a margin of error of the average cost of a combined cycle unit."[15] 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. In addition, suppliers are allowed to go to FERC to cost-justify offers above the soft offer cap. A CPM pricing formula which allows for a 20% adder to GFFC and allows that CPM resource to keep all market rents earned, is both unreasonable and inconsistent with the purpose of the CPM soft-offer price cap. Under the current CPM pricing structure, a resource that has GFFC equivalent to the soft-offer cap can only receive CPM compensation at the soft-offer cap of $75.68/kW-year. Under CAISO's proposal here, that same resource would receive CPM compensation at $75.68/kW-year plus 20%, or $90.82/kW-year, effectively raising the CPM price and imposing additional unnecessary costs on ratepayers while overcompensating generators.

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

Comments:

No Comment

2. Other Comments

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

Comments:

[13] Second Revised Straw Proposal, pp. 35-36.

[14] See CAISO Tariff 43A.4.1.1.2.

[15] FERC Docket No. ER15-1783-000, 153 FERC ¶ 61,001, Order on Tariff Revisions October 1, 2015, Paragraph 13. Available at: https://www.ferc.gov/CalendarFiles/20151001165638-ER15-1783-000.pdf

In the stakeholder meeting, the CAISO stated that it may not produce a study identifying essential reliability resources (ERRs) because the Proposed Decision (PD) in the CPUC RA proceeding states that the Commission finds it unnecessary to adopt the study at this time. The PD states that the "existing LCRTS [Local Capacity Reliability Technical Study] identifies essential resources (with effectiveness factors) that can meet capacity needs in local and sub-local areas."[16] While the LCRTS does identify the effectiveness of resources in meeting local or sub-area reliability needs, based on the contingencies in an area, the study can also state that "effectiveness factors may not be the best indicator towards informed procurement."[17] For areas where the CAISO states that effectiveness factors may not be the best indicator towards informed procurement, it is not clear what resources should be procured, especially on a multi-year basis. To avoid the need for backstop procurement, the CAISO should provide more information on which resources are essential for reliability in a clear, transparent, and timely manner. The RA PD recognizes the need for this information by concluding that the "central buyers should use the CAISO's ERR study or a similar methodology to guide local procurement, in collaboration with the CAISO and Energy Division staff, so as to avoid potential backstop procurement."[18] Additionally, this information is necessary to inform the development of alternatives through the CPUC's Integrated Resource Planning (IRP) proceeding. The CAISO should move forward with producing an ERR study.

[16] CPUC RA PD, November 21, 2018, p. 27.
[17] CAISO 2019 Local Capacity Technical Analysis Final Report and Study Results, May 14, 2018, p. 54.
[18] CPUC RA PD, p. 28.