Comments of Pacific Gas & Electric Company

CPM Soft Offer Cap Issues Paper

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) appreciates the opportunity to comment on the California Independent System Operator Corporation's (CAISO) CPM Soft Offer Cap Issues Paper.[1] The Capacity Procurement Mechanism (CPM) and the Competitive Solicitation Process (CSP) play an important role in maintaining reliability of the California grid. The Soft Offer Cap and its specific value is critical to ensure just and reasonable rates in the CAISO's backstop procurement processes.

PG&E supports updating the Soft Offer Cap value for solicitations that are competitive and additional mitigation should be applied when the markets are not competitive. A market power test is needed to make that determination. For solicitations that are not competitive, the CPM compensation must be redesigned to provide compensation that is just and reasonable for both consumers and generators. PG&E requests that the CAISO add a market power test to all CPM, solicitations and redesign the CPM compensation for those that fail that test.

PG&E's comments can be summarized as follows:

1. PG&E is concerned about the level of competition in the CSP and therefore supports a pivotal supplier or similar test of market power for all backstop solicitations.
2. For CSPs that are competitive, PG&E supports the current pay-as-bid CPM compensation and supports updating the Soft Offer Cap based on the most recent CEC study.
3. For annual CSPs that are not competitive, PG&E recommends a CPM compensation method that that accounts for market revenues.
4. For monthly or intra-monthly CSPs that are not competitive, PG&E asks that the CAISO look into a compensation method that is specific to non-competitive monthly and intra-monthly CSPs that accounts for expected market revenues
5. PG&E requests that the CAISO provide more transparency regarding deficiencies and the decision to backstop via CPM.
6. PG&E requests that the CAISO develop a method of allocating all Resource Adequacy Attributes of the CPM'ed resource

[1] Found here: http://www.caiso.com/Documents/IssuePaper-CapacityProcurementMechanismSoft-OfferCap.pdf

Comments:

1. PG&E is concerned about the level of competition in the CSP and therefore supports a pivotal supplier or similar test of market power for all backstop solicitations

   As noted in the CAISO's Issue Paper, many stakeholders are concerned that there is insufficient competition in the CSP as evidenced by the fact that most of the CPM designations that the CAISO made were at or near the current Soft Offer Cap ($6.31/kW-month). The CAISO's Issue Paper lists this concern under the heading *Annual payment for 12-month CPM designations*.[2] PG&E shares the concern that solicitations for annual deficiencies are not competitive but is also concerned about solicitations for monthly deficiencies. PG&E asks that the CAISO provide data on the level of competition in solicitations for all solicitations (annual, monthly, and intra-monthly). PG&E supports adding a market power test (*e.g.,* a pivotal supplier test) to all solicitations for deficiencies unless the CAISO can provide evidence that monthly solicitations are sufficiently competitive.

2. For CSPs that are competitive, PG&E supports the current pay-as-bid CPM compensation and supports updating the Soft Offer Cap based on the most recent CEC study

   The current method for CPM compensation is appropriate assuming that the CSP is competitive. For those solicitations that are competitive, PG&E supports the current pay-as-bid compensation with a Soft Offer Cap as participants would have the incentive to reflect expected energy revenues in their bids. PG&E also supports updating the Soft Offer Cap value based on the most recent CEC study.[3]

3. For annual CSPs that are not competitive, PG&E recommends a CPM compensation method that that accounts for market revenues

   If an annual solicitation fails to be competitive (*i.e.,* resources fail the market power test), then PG&E believes the current CPM compensation method is inappropriate, as it could result in a resource receiving compensation above its cost of service, which includes a just and reasonable rate of return. It is inappropriate for a unit that has market power to earn above its cost of service. It would be better for customers if the unit were paid its cost of service similar to the Reliability Must-Run (RMR) contract, as it would not allow generators to arbitrage the two processes. PG&E recommends, in this case, that the unit receive compensation based on a unit-specific CPM backstop price, that the must offer obligation (MOO) be updated for marginal cost bidding, and an *ex post claw-back of* market revenues.

   If an annual solicitation is non-competitive, PG&E asks CAISO to set a more appropriate and administratively-set price that is between the unit's *going forward fixed cost* and the unit's *cost of service*. This is a defensibly just and reasonable range for backstop procurement. PG&E recognizes

[2] *Supra* n.1 at page 7, section 4.2
[3] Estimated Cost of New Utility-Scale Generation in California: 2018 Update, California Energy Commission, May 2019, https://ww2.energy.ca.gov/2019publications/CEC-200-2019-005/CEC-200-2019-005.pdf

that this range varies greatly between different units, heavily dependent on the unit's level of depreciation and amount of market revenues. In the case that the market is uncompetitive, but CAISO still needs to select between say two different units with market power, PG&E recommends that CAISO develop methods of calculating unit-specific *default backstop bids* that account for expected market revenue.

If the designated unit failed the market power test, then PG&E recommends that CAISO develop a compensation method that accounts for actual market revenues. This could be done through a payment approximately equal to the unit's cost of service, an *ex post* claw-back of net-market revenues, and with an update of the MOO, similar to the RMR contract. Current CPM contracts have a MOO that requires the unit to bid into the energy market every hour of every day (24x7). If a unit is receiving a CPM price equivalent to its cost of service (with a net-revenue claw-back), the MOO should be updated to require marginal-cost bidding to ensure the customer is getting the full value of the resource.

Finally, the current CPM compensation method allows for units to petition FERC to allow for compensation above the Soft Offer Cap. The unit with market power would be allowed to petition FERC for their *going forward fixed costs* + 20%. The additional 20% was originally intended to allow for a margin of error in calculating the Soft Offer Cap. At FERC, the unit can ask for its true going forward costs; there is no error and no need for an additional 20% margin.

4. For monthly or intra-monthly CSPs that are not competitive, PG&E asks that the CAISO look into a compensation method that is specific to non-competitive monthly and intra-monthly CSPs that accounts for expected market revenues

   If a monthly solicitation fails to be competitive (*i.e.,* resources fail the market power test), then PG&E recognizes that the compensation method suggested for annual uncompetitive solicitations may be infeasible but yet it would be inappropriate to not consider the generator's market power. In the case of an uncompetitive monthly or intra-monthly CSP, PG&E requests that the CAISO look into a compensation method for non-competitive monthly and intra-monthly CSPs that accounts for expected market revenues.

5. PG&E requests that the CAISO provide more transparency regarding deficiencies and the decision to backstop via CPM

   PG&E has previously expressed concerns about the lack of transparency in the CPM and CSP processes. PG&E would like to take this opportunity again to echo these concerns and request that CAISO bring greater transparency into these processes by:

   1) providing further description to the decision criteria for when an RA deficiency is, or is not, filled by CPM designation;

2) providing market notices and explanations when RA deficiencies are *not* filled by CPM designations; and

3) providing market notices and explanations when RA deficiencies are filled by CPM designations.

6. PG&E requests that the CAISO develop a method of allocating all Resource Adequacy Attributes of the designated resource

   Currently customers (*via* LSEs) do not get credit for the other RA attributes associated with CPMs. PG&E recognizes that this is a timing issue: CPMs are designated after RA showings. Despite this issue, it is important that customers receive value from the CPM's resource. PG&E requests that CAISO develop a method for each timeframe (*i.e.,* annual, 60-day, 30-day, intra-monthly, *etc.*) that, in some way, allocates the value of the RA attributes to the appropriate parties.