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

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PG&E provides the following comments on the Draft Final Proposal published January 23, 2019, and discussed during the stakeholder meeting held January 30, 2019.

PG&E appreciates the progress that has been made by the CAISO in many areas of the proposal and remains concerned with some of the critical defects that could have negative impacts on the backstop procurement mechanisms. The following is a list of the serious flaws within the proposal that need immediate attention:

- the retirement/mothball process should have appropriate measures to eliminate gaming and should continue to require that resources attest that they are uneconomic;
- the enhancements should not permit self-selection of the procurement mechanism that provides maximum compensation and must account for resources with market power;
- and, the improvements seek to treat RMR, CPM, and RA resources identically when each has completely different forms of compensation.

*Provide notice to stakeholders or resource retirements*

**The CAISO should update its spreadsheet when it has completed its evaluation to either approve or deny the request by a resource owner to retire or mothball.** The CAISO proposes to utilize an RSS feed to report when it receives documentation that a resource owner is planning to retire or mothball. The CAISO currently updates the spreadsheet only when it receives notifications. However, the spreadsheet should also be updated when the CAISO has decided to approve or reject the request. The objective of this notice was to identify when there is potential that the ISO may procure the resource under its backstop authority to ensure reliability.

*Clarify use of RMR versus CPM procurement*

**A retirement/mothball request should require the resource owner to attest that the resource is uneconomic to operate and a mothball request from a unit that has not clearly indicated its intention to retire should not be considered for an RMR designation.** The CAISO's proposal does not fully appreciate the number of options available to a resource owner requesting to mothball its generating unit. A mothball request allows a resource owner to shut down its unit until it determines its next steps which could be decommissioning, repowering, permanently retiring, or restarting. The ability to decide on restarting the unit in the future is what differentiates a mothball request from a retirement request. Permitting a mothball request to be considered for an RMR designation and cost of service compensation is unjust and unreasonable when the resource retains the right to restart up to three years in the future. If a resource is undecided on its next steps and requests to shutdown via a mothball request then it should not receive the same compensation as a resource that has clearly signaled its intention of decommissioning and retiring. Making this distinction will help clarify that RMR authority should only be used as a last resort for resources that have appropriately conveyed a commitment to retire.

Additionally, the signed affidavit to the CAISO should retain the existing tariff language to explicitly state that it will be uneconomic for the resource to remain in service. Such an attestation of uneconomic operation will deter gaming both in seeking extra payments for not mothballing or in making the unit unavailable and allowing for the potential of physical withholding. This recognizes the critical differences between a mothballed resource that can return to service and a retired resource that is unable to return to service.

Finally, PG&E believes that the CPM compensation should be tailored in such a way as to minimize the discretion afforded to generation owners with market power. The proposed process allows resources needed for reliability to navigate the process towards the most attractive compensation. As PG&E stated in previous comments, we believe that the soft-offer cap is an appropriate upper bound compensation for shorter duration CPM awards. For units that have market power (i.e. the CAISO has limited competitive alternatives) and receive annual designations, the resource's compensation should be defaulted at going forward fixed cost with a credit back of any net market revenues and the opportunity to seek compensation up to its cost of service. Allowing a generation unit to choose the CPM compensation soft offer cap (including keeping market revenues), would not be reasonable rate if the returns are higher than the cost of service rate of the RMR and competition cannot work to incent lower CPM bids.

*Consider making RMR resources subject to RAAIM*

**RMR resources should not be permitted to substitute without transferring the incentives and performance penalties associated with the contract.** The CAISO asserts that it should apply the same performance mechanism to RA, CPM, and RMR resources, to avoid undue complexity to systems and processes. This approach would permit RMR resources to take planned outages and grant them the ability to substitute for both planned and forced outages to mitigate exposure to RAAIM penalties. This approach undermines the intent of maximizing the value to customers of a resource being compensated at its full cost of service. If an RMR resource were permitted to substitute, the substitute resource would be subject to a different RAAIM penalty than the RMR resource and would be allowed to retain market revenues. This undermines the intent of crediting market revenues against the RMR cost of service and allows the resource owner to be fully compensated without any non-performance penalties. Additionally, the CAISO has indicated that the outage management system would be used to ensure that RMR resources are not permitted to take outages during critical reliability periods and will retain the authority to instruct the RMR resource to not bid during certain hours. This further highlights key differences of compensation, penalties, and bidding exceptions between RA, CPM, and RMR resources that have not been fully addressed in this process.

*Explore whether ROR CPM and RMR procurement can merged into one mechanism*

**Mothball resources have the option to return to service and should only be considered for procurement in the upcoming year.** The CAISO proposes to merge the ROR CPM authority under the RMR tariff with the intent of eliminating the ROR provisions under the CPM tariff. This seems to be a reasonable change to ensuring reliability. It also highlights the need to clarify why a mothball request should not be evaluated for RMR service when it retains the right to restart up to three years in the future. The CAISO has indicated that it may designate an RMR for the upcoming year if a resource is needed for reliability in the following year. Mothballed resources should not be designated for an upcoming year if they are needed for reliability in the following year. If the resource is needed in the following year, the CAISO should delay its procurement decision until the resource is actually needed and use its procurement authority under the three conditions for a mothballed unit to return to service. If a resource conveys its intent to retire only then should the resource be evaluated for RMR status in the current year and for the following year.

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

**The CAISO should provide the specific NERC, WECC, or CAISO standards that would be the basis of an RMR designation for system or flexible needs.** The CAISO intends to clarify that existing RMR authority includes the ability to designate an RMR for system and flexible needs. The CAISO cites Tariff section 41 as the basis of this authority to use RMR designations to meet any NERC, WECC, or CAISO standard. The CAISO's proposal does not cite which of these standards are the basis for the system and flexible needs. As PG&E stated in previous comments, we continue to respectfully disagree with this aspect of the proposal and believe the CAISO needs to specify the reliability standards that would be used in determining a system or flexible RMR designation.

PG&E appreciates the CAISO proposing alternatives to allocating RMR costs to applicable LSEs in the TAC area where the reliability need exists based on the percentage of actual load. Additional specification should be given to demonstrate how cost allocation aligns with causation.

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

**PG&E supports the alternative proposal that does not include a 20% adder.** The CAISO proposes to change the pricing formula based on the going forward fixed cost (GFFC) of its resource using the same cost categories. The 20% adder seems entirely arbitrary, especially if the resource is filing its actual GFFC at FERC above the soft-offer cap.

*Clarify deadline for ISO to post CPM designation report*

**The CAISO should post its decision to not designate a resource to address a reliability deficiency.** The CAISO aggregates the portfolio of resources submitted and deficiencies can occur when the aggregated resources fail to satisfy the adopted reliability criteria. The CAISO is not required to procure to eliminate a deficiency in reliability requirements after LSEs have had the chance to address the deficiency. The proposal adds language to post the designation report when CAISO procures, but the CAISO should also issue a notice when a decision is not made to cure the deficiency.