Capacity Procurement Mechanism Soft Offer Cap Straw Proposal Call - Stakeholder Comments

Submitted by	Company	Date Submitted
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Southern California Edison (SCE) offers the following comments on the California Independent System Operator (CAISO) Capacity Procurement Mechanism (CPM) Soft Offer Cap Straw Proposal Call[1].

SCE supports the CAISO proposal
SCE thanks the CAISO for designing a well-balanced and fair proposal. While SCE supports most aspects of the CAISO's proposal, it particularly supports the implementation of a three pivotal supplier test as mitigation against the potential exercise of market power in the Competitive Solicitation Process (CSP) for twelve month duration CPM designations.

Cost-of-service should be the default alternative in the face of non-competitiveness
As stated earlier by SCE, if the outcome of the annual CSP is non-competitive, the CAISO should resort to cost-of-service procurement as included in the CAISO proposal. SCE also requests clarification that the three pivotal supplier test excludes capacity that is already procured for either RA, CPM, RMR, or any other reliability need. During the stakeholder meeting, the CAISO indicated that resources providing RA or under a CPM or RMR contract or that cannot meet the reliability need would not be included in the pool of available resources for purposes of the three pivotal supplier test. SCE asks that the CAISO indicate such in its next paper.

Arguments against using market power mitigation (MPM) are either irrelevant or specious
A three pivotal supplier test of capacity will solely determine competitiveness based on quantity. It will not inform the price dimension. Any conclusions drawn on cost recovery or bid cap interaction are comparing apples to oranges.

A resource's cost recovery is ensured since the bid cap itself does not hinder a resource from bidding its costs and if the resource can demonstrate a cost higher than the cap, it can bid that value subject to approval by the FERC. The cap therefore while a limit, is not indicative of a bid's competitiveness if the bid is lower than that cap.

[1] http://www.caiso.com/Documents/Presentation-CapacityProcurementMechanismSoftOfferCap-Aug6-2019.pdf

Comments were made during the workshop at least implying that it would be inappropriate to pursue a cost-based compensation when the three pivotal supplier test is failed if the resource was bidding below the cap. As pointed out above, just because a bid is below the cap does not mean that the resource is not exercising market power. As SCE has stated before, the price cap is a reasonable market power mitigation tool for short-term CPMs (i.e. 30 – 60 day duration) but is not appropriate for a twelve month designation. SCE has pointed to the fact that the documentation filed with the FERC and the experience with CPM at the time of filing was focused on short duration designations.

For these reasons, SCE believes that a lack of competition for a twelve month duration CPM should be treated with more review than the imposition of a simple cap that may or may not represent the actual costs and a reasonable rate of return. The compensation method suggested by the CAISO ensures that the resource will recover their costs and receive a rate of return even if the three pivotal supplier test is failed.

Finally, SCE notes that while published RA prices provide some information, such information is limited to the descriptive statistics of the distribution of RA prices. The published prices do not provide underlying details such as the reason for capacity procurement or the nature of the contract (e.g. the products received in the contract, the duration of the contract, etc.). Thus, the conclusions drawn by some stakeholders (e.g. that the highest recorded prices in the CPUC RA report are indicative of the value of any duration and product delivery RA contract) during the call were without foundation.