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) Reliability Must-Run (RMR) and Capacity Procurement Mechanism (CPM) Enhancements initiative August 27[1] and September 27[2] meetings.

SCE appreciates the CAISO's efforts and largely agrees with many of the CAISO's proposals

SCE thanks the CAISO staff for their guidance in this productive stakeholder process. The CAISO's direction, within the comprehensive scope, has led to substantial progress in RMR and CPM enhancement. SCE's comments, below, are in general support of the CAISO's various proposals in this initiative, and are meant to serve as suggestions toward fine tuning of the proposals.

SCE supports the proposal on the RMR penalty price

The CAISO proposes to have the RAAIM penalty price for RMR at the agreement price of the contract. SCE supports this. As clarified by SCE in prior comments, the optimal penalty price is exactly the agreement price. A lower penalty (relative to agreement price) allows a resource to collect payments for doing nothing, while a higher penalty makes a resource worse off.

[1] http://www.caiso.com/Documents/Presentation-ReliabilityMust-RunandCapacityProcurementMechanismEnhancements-Aug272018.pdf
[2] http://www.caiso.com/Documents/Presentation-ReliabilityMust-RunandCapacityProcurementMechanismEnhancements-Sep272018.pdf

Specific areas where the proposal needs some minor course corrections

1. ***CPM versus RMR***

As noted by SCE, it is questionable whether a CPM designation for an RA deficiency for a 12 month period can truly result in a competitive outcome. Recent CPM awards of this duration have been clearing consistently close to, or at, the soft offer cap. And those cleared CPM prices have been very consistent with the recently signed RMR agreements. Given the nature of the payments with respect to the retention of market rents, SCE finds it difficult to grant a resource a CPM paying prices consistent with the prices paid in RMR and continuing to allow the resource to retain market rents. This optionality should be avoided.

For those reasons, SCE has generally concluded that the 12 month CPM should be treated like an RMR condition 2 contract with all market rents returned to offset the capacity cost of the resource. If the CAISO still believes that competition for a 12 month CPM is feasible, then the CAISO should employ market power screens when conducting the competitive solicitation process for such a CPM. SCE recommends that a three-pivotal supplier test based upon ownership be conducted. If the screen cannot be passed, then the CAISO would terminate the competitive solicitation and enter into an RMR agreement instead.

2. ***Historical outage information is not a reasonable input to inform a future RMR contract***

During the last stakeholder meeting, some parties suggested that the use of RAAIM coupled with an anticipated outage rate was unnecessary as the current RMR already accounts for outages. The current RMR agreement accounts for outages based upon a historical outage rate of the facility. Such a mechanism does not provide sufficient incentive to maintain the facility to the level of reliability that the CAISO believes is needed, nor is it consistent with how other resources are expected to perform under RAAIM.

While there must be some allowance for maintenance outages, the reliance on historical outage rates is not appropriate. Instead, the CAISO should define the maximum number of hours per year that the resource can be on outage without having its capacity payment impacted. This process should also define whether there are specific times of the year in which outages should be further limited to avoid capacity payment impacts. Such mechanisms will provide appropriate incentives as well as ensure that the CAISO and the load paying for these resources receive the benefits that are being paid for.

3. SCE believes that elimination of condition 1 RMR is appropriate

During the valuation of an RMR contract, the resource as well as the CAISO perform their analysis of how the resource may place optimal market bids to recover part of the cost of service. First, the CAISO's assumptions in its analysis may not agree with the resource owner's assumptions, regarding optimal market bids. Second, the CAISO, as a ratepayer cost-minimizing agent, is a proxy for the best informed agent for ratepayer cost-minimization – the load serving entity (LSE). The CAISO may have different assumptions toward how to best cost-minimize for the ratepayer, based on less information than is available to a LSE.

By providing an option, it is reasonable to assume that the generator owner will select the option that maximizes their expected profit. Such a process will then likely need to be subject to some form of settlement with interested parties being able to opine on which structure the CAISO should accept for any given contract. SCE does not see this additional option as creating sufficient benefit to outweigh the complexity of a likely contentious term that will need to be negotiated for each agreement. At this time, SCE believes that it would be more straight forward to simply remove condition 1 from RMR and proceed with a cost of service based contract with market rents utilized to pay down the capacity cost of the contract.

4. If CPM is utilized for long-duration procurement, the CAISO should use a three pivotal supplier test on the Competitive Solicitation Process to ensure competitive CPM bids

While SCE has noted that it may be simpler to utilize RMR for any contract with a duration of twelve months, if the CAISO believes that competitive forces can produce lower costs to load, then such mechanisms should feature elements to ensure that such competitive forces are present. As such, SCE believes that if the CAISO continues to rely on the Competitive Solicitation Process for CPM to procure long-duration CPM, then the CAISO must employ a three pivotal supplier test based upon ownership. If, in any solicitation, the three pivotal supplier test is failed, then competition in the CPM cannot be assured. As such, the CAISO, under a failed pivotal supplier test, should utilize an RMR contract instead. Such a mechanism ensures that the generator receives sufficient payment to recover their costs as well as a reasonable return while avoiding potentially non-competitive outcomes.

As noted by the MSC, the three pivotal supplier test is reasonable in the CAISO's existing local market power mitigation mechanism[3]. Further, during the September 28 meeting, the MSC

[3] http://www.caiso.com/Documents/MSC_Report-Appropriateness-ThreePivotalSupplierTest-AlternativeCompetitiveScreening.pdf

noted that other ISO/RTOs use the three pivotal supplier test in mitigating market power in similar circumstance. The CAISO should implement a three pivotal supplier test, based on resource ownership, to ensure competitiveness in CPM bidding.

1. Comments on September 19, 2018 straw proposal.

RMR and CPM

a. Provide notice to stakeholders of resource retirements

Comments: SCE supports.

b. Use of RMR versus CPM procurement

Comments: As noted above, the CAISO should not show a preference of CPM over RMR, nor should incentives be set up such that resources will have a preference. If CPM must be utilized, the CAISO must ensure that the process to arrive at an outcome is not subject to market power by the participants in the process.

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

Comments: SCE supports.

RMR

d. Develop interim pro forma RMR agreement

Comments: SCE supports this need and the CAISO's filing at the FERC.

e. Update certain provisions of pro forma RMR agreement

i. Remove AS bid insufficiency test and revise dispatch provisions to align with current market design

Comments: [Insert comments here]

ii. Update Schedule M and Schedule C to include GHG compliance cost calculation, DAM and RTM gas price index, and updated SC charge calculation

Comments: [Insert comments here]

iii. Update Schedule M to be consistent with bidding rules in ISO tariff and BPM

Comments: [Insert comments here]

iv. Seek input on defining a heat rate curve formula in Schedule C for multi-stage generator resources

Comments: [Insert comments here]

f. Make RMR resources subject to a must offer obligation

Comments: SCE supports.

g. Make RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Comments: RAAIM is a market based mechanism dependent on RA contracting between LSEs and resources. The RMR is a non-market backstop mechanism contracted between the CAISO and resources. The RMR penalty for non-compliance should be only dependent on, and exactly equal to, the RMR award. As the latest straw-proposal would set the RAAIM penalty to the contract amount, SCE supports the straw-proposal.

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

Comments: SCE provided various reasons above, none of which support continuation of two Conditions. As such, the CAISO should eliminate the option for a Condition 1 RMR.

i. Update rate of return for RMR compensation

Comments:

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

Comments: SCE supports an alignment. Regardless of the procurement need, the CAISO should procure all attributes of a resource otherwise it risks leaving stranded attributes that no one can procure. As SCE discussed during the stakeholder meeting, the current RA process through the CPUC, only the entity that purchased the system/local attribute of a flexible resource can purchase the flexible attribute. If the CAISO were to explicitly not purchase the flexible attribute and if the must-offer obligation for the resource did not utilize the flexible capacity, the flexible capability for such resource would be unobtainable by any party. In addition, the RMR agreement is paying for the cost of the resource and the bidding of energy would recover any variable operating costs. As such, load is paying for the entirety of the capacity and energy associated with the facility and should be allocated any benefits that accrue including system, local, and flexible RA.

k. Allocate flexible Resource Adequacy credits from RMR designations

Comments: SCE supports. Regardless of the procurement need, the CAISO should procure all attributes of a resource otherwise it risks leaving stranded attributes that no one can procure (see j. above).

l. Streamline and automate RMR settlement process

Comments: [Insert comments here]

m. Lower banking costs associated with RMR invoicing

Comments: [Insert comments here]

<u>CPM</u>

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

Comments: SCE supports the CAISO proposal to change the CPM pricing formula. In particular, the claw-back of market rents is appropriate when the CPM payment is above the soft-offer cap and is set at the cost of service through a FERC process.

o. Evaluate year-ahead CPM local collective deficiency procurement cost allocation to address load migration

Comments: SCE agrees that this issue is largely moot given the CPUC decision impacting the cause of this concern. SCE believes that the CAISO should continue to monitor developments in this space and re-initiate discussion of this element if the need arises in the future.

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

Comments: [Insert comments here]